Fiscal Year 2014
Recommended Budget

POSITION PAPERS

City of Newport News

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Fiscal Year 2014
Budget Position Papers

TABLE OF CONTENTS

CITY OF NEWPORT NEWS

OFFICE OF THE CITY MANAGER

March 26, 2013

TO: The Honorable City Council

FROM: City Manager

SUBJECT: Recommended FY 2014 Operating Budget

I am transmitting for your consideration, my recommended operating budget for the fiscal year that begins July 1, 2013 and ends June 30, 2014.

This memorandum summarizes my proposed Fiscal Year 2013-2014 operating budget for the City of Newport News. Like other recommended budgets in recent years, it attempts to reconcile community needs, organizational imperatives, and significant financial constraints. The details of the Recommended Budget are necessarily complex, as are the needs of this community. While many important initiatives, priority judgments, and more nuanced recommendations are included in the budget, the broad-brush factors shaping its main features are actually fairly straightforward.

Expenditure requirements are driven by five factors: a need to keep our salary structure for both the City and the Schools competitive for the long term, an obligation to bring our pension system into sustainable balance (now much more achievable because of additional reforms recently approved), a need to restore funding for various ongoing operations that were cut back during the recession but will grow more costly to restore if we wait further (paving, equipment, technology), regional and contractual obligations (Hampton Roads Transit (HRT), Hampton Roads Regional Jail (HRRJ), animal services), and the direct and indirect impact of State and Federal regulatory mandates (sewer, stormwater, and water).

On the cost control side of the budget, most of the strategies that we have successfully deployed in recent budgets such as hiring lag, position elimination, overhead trimming, and short-term reductions, are no longer available options for further cutting. While some additional efficiencies and consolidations are included in the budget recommendation, it is my judgment that our citizens and City Council would prefer to pay for the services they expect than to eliminate things where most of the money is spent.

OVERVIEW

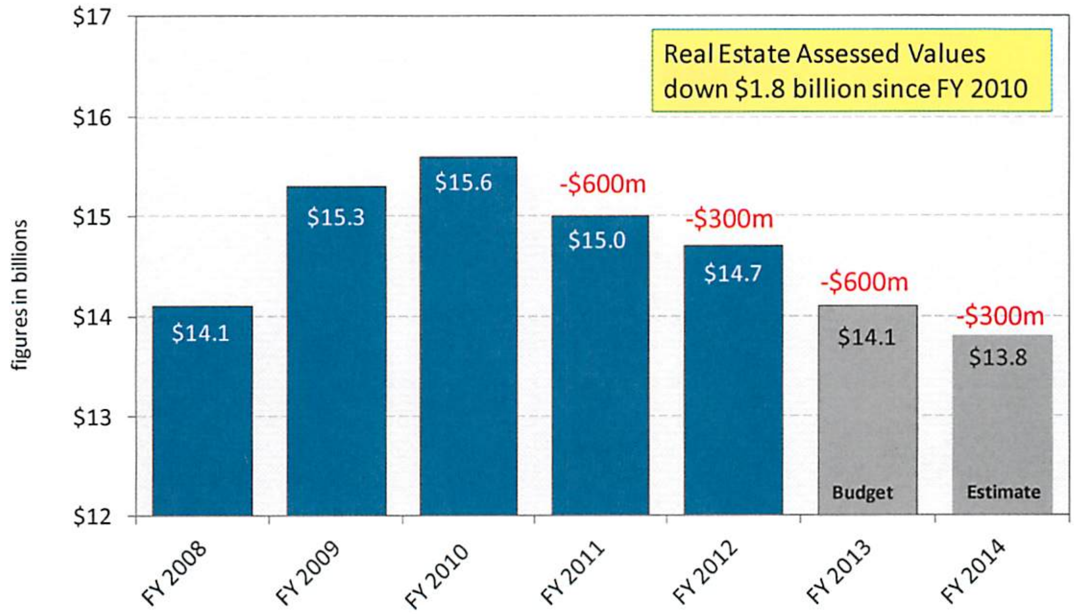
I am submitting to you a budget that addresses the community's needs on several differing levels. First, the proposed budget maintains the basic services that citizens expect of the City of Newport News. Essential expenditure increases were made to limit service reductions or to maintain contractual agreements at the same level in the upcoming year that we are presently receiving. Second, only two direct public services will be eliminated, and by this action, many current efficiencies and future program options are achieved. Third, in the proposed budget we must complete funding the Denbigh Community Center and the 311 Customer Contact Center, consistent with our Strategic Priorities. Fourth, this recommended budget also provides for additional internal efficiencies; while not obvious to the citizen, in several areas we will be fundamentally altering some tools we use to provide services. Fifth, to avoid greater long-term expenses, I am partially restoring essential infrastructure investments and equipment funding that were reduced during the recession. While the economy is still in somewhat fragile stages of recovery, we are to the point where if underfunding is continued in residential street paving, information technology equipment, and operational vehicles, the impact of restoration of funding beyond FY 2014 will be significant. Unless initial steps are taken now to refurbish monies incrementally for these functions to plan for the future and to be ready to move the City when the economic recovery is more robust, we will find ourselves in a position in the future of diverting a considerable percentage of the operating budget to essential tools. And finally, to the extent possible given our constraints, the Recommended Budget invests in City Council Strategic Priorities.

My total recommended FY 2014 budget is $782,010,315, which is an increase of $34,770,265 or 4.6% higher than the adopted current fiscal year. This total budget amount includes the General Fund, Schools, Public Utilities, and all Special Revenue and Trust Funds. In a change from past practices, it is anticipated that the School Fund will experience approximately $2.5 million more in revenue from the Commonwealth for operations; that Fund will be higher in the upcoming fiscal year. Public Utilities (Waterworks) will again experience reduced water demand and has proposed a budget that continues the policy started in FY 2012 of moving that Fund's revenue base from being dependent on the volume of water used to fees that are fixed more to service delivery costs. Due to the uncertainty of sequestration impact at this time, we have no information on the final determination on the amount of Federal funds that the City receives in support of the Community Development Block Grant (CDBG). For this reason, we are anticipating a funding level equal to FY 2013, until more information is available.

Of this total budget amount, the FY 2014 Recommended General Fund Operating Budget totals $432,973,000, which is an increase of $18,452,000 or 4.5% higher than the adopted FY 2013 Operating Budget. This increase allows us to meet our contractual obligations, sustain most services, and covers many costs beyond our control while meeting Pension commitments and providing a small employee salary adjustment.

Yet again, our largest revenue source, Real Estate Taxes, is projected to decline in FY 2014. As you know, current Real Estate Taxes are generated from real estate values. Real estate property assessments, which are based on market values established for the 12-month period of January 1, 2012 to December 31, 2012 (calendar year 2012), are expected to decrease for the fourth consecutive fiscal year. It is disappointing that the City will be experiencing yet another year of revenue loss from this major source at this stage of the national economic recovery. The chart below illustrates the dramatic change in values, with the anticipated Real Estate Levy on July 1, 2013 to be less than that of FY 2008. In other words, we will be generally collecting $3.5 million less Real Estate revenue than we did six years ago, at the same tax rate of $1.10 per $100 of assessed value, even <u>after</u> the expanded major projects that have occurred over that same time period (Canon, the Shipyard, Riverside, various other retail and high volume residential projects, just to name a few).

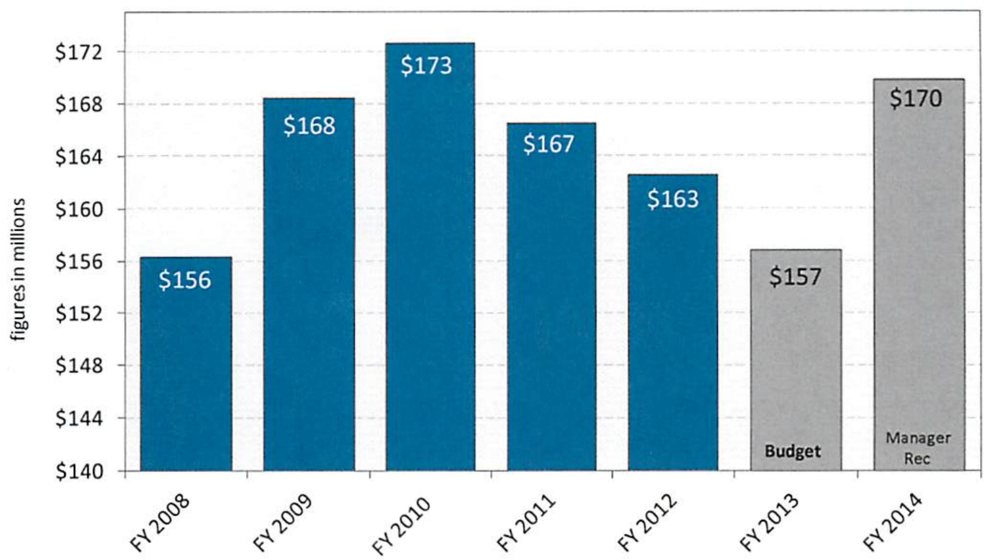
Recent History of Real Estate Assessment Values (Adopted Budget)



An average assessment decrease of approximately (2.75%) will be seen, with most residential property owners paying real estate taxes on a lower valued property than in FY 2013. To put this in perspective, this percentage decline in assessments equates to a $3 million loss or (1.6%) less from the City's single largest revenue stream just between FY 2013 and FY 2014 at the same tax rate. Commercial and Industrial properties will be fairly stable.

For the past five years, due to the impact of falling revenue sources and proportionate expenditure reductions, the General Fund Operating Budget has declined from $433 million to $414 million. In order to manage daily operations of public safety and corrections, contributions to public education, essential public works operations, pay outstanding debt obligations, provide the human services safety net programs, as well as offer quality-of-life options to our citizens, we have now cut costs and operations to the point where the choice is either to eliminate services or increase the real estate tax rate. I am proposing a twelve cents (12) increase on the Real Estate Tax rate, from $1.10 per $100 of assessed valuation to $1.22.

The History of General Fund Real Estate Tax Revenue



The ongoing assessed value decline reinforces the decision made in FY 2012 to shift our tax abatement program to a tax deferral for our elderly and disabled citizens. Prior to this change, the cost of the tax abatement program had grown to five times its size from 20 years ago. In FY 2012, tax relief represented close to a $3 million loss in revenue to the City, exclusive of the impact of the loss of $475,000 in additional real estate revenue from the recently mandated tax relief for Disabled Veterans. Without a change to the tax abatement program, the City would lose substantial and increasing amounts of Real Estate Tax revenue over time. The decision to change to a tax deferral program was responsible, fair to all the citizens as users of City services, and forward-looking. As a result of this action, our loss of revenue from the tax deferral program is anticipated to decline from $3.3 million in FY 2011 to $1.7 million in FY 2014. Over time, this revenue loss will be completely eliminated, while the substantial benefit through deferral is maintained for most impacted individuals. As the State-mandated tax relief for Disabled Veterans becomes better known, the City's liability has increased. For FY 2014, this highly specific tax relief will increase by $175,000 to an anticipated $650,000.

As you know, the State's payment to localities declined for five consecutive years, which does not include overall under-reimbursement for State programs as has been the pattern for many years. During this time period, the City has lost a cumulative $7.9 million in direct State Aid to Localities. As the City absorbed these expenditures within its base budget, the State experienced surpluses in its operating budget. Recognizing the burden continued State funding reductions would have on the localities, the Governor's revised FY 2014 Budget did recommend "restoration" of State funding to select activities. And to be clear, restoration meant that an additional reduction to the localities planned in FY 2014 would not occur. In other words, FY 2014 State funding would be at the same reduced FY 2013 level, and not result in new cuts.

Other General Fund revenues for FY 2014 have been estimated based on a continued slow economic recovery. Locally generated Machinery and Tools and Personal Property Taxes are showing moderate change, with increases of $900,000 in each over the current fiscal year. Sales Tax revenue remains on target for collections in the current year. Forecasting limited new retail development within the City for the full year in FY 2014, an additional $857,000 in sales tax revenue, or 4% growth, has been added. Meal Taxes are estimated to increase by $1 million.

So as to not be overly reliant on higher real estate tax rates, adjustments in locally controlled rates of Lodging Tax and Amusement/Admission taxes are being proposed. These particular rates are recommended for increase as they are specific taxes that are based on a personal choice and are in part paid by non-Newport News residents.

For the Lodging Tax, I am recommending that the rate increase from 7.5% to 8.0%. This half of one percent (0.5%) rate increase is anticipated to generate approximately $215,000 in additional revenue. Also, I am recommending that a new, flat $1 per day charge be imposed, with estimated revenue of $650,000. The revenue generated from this tax would be dedicated to a new Cultural Attractions Fund. In response to the growing financial needs within the arts and museum community for both public and private facilities, I have proposed creating a funding mechanism dedicated to community cultural activities beginning in FY 2014. The proceeds from the new portion of the Lodging Tax would be made available to such organizations through an application process, for those groups in need of additional financial support, with the first $400,000 dedicated to operations of the Virginia Living Museum (VLM). Both City and private agencies that may be in need of operating or capital support may then compete for those funds. The existing formula for lodging taxes being shared with the Tourism Fund would be maintained with the exception that the new rate increment would support the proposed Cultural Attractions fund.

The Amusement Tax is recommended to increase from 7.5% to 10.0%, with an additional $159,000 estimated to come from this change.

The chart below shows the loss of the Real Estate Tax revenue and new revenue generated by the proposed rate increases.

FY 2014 Proposed Rate and Fee Changes

(in Millions)

Revenue	FY 2013 Adopted	FY 2014 Estimate	Difference Amount
Real Estate Tax @ current Rate	$151.4	$148.5	($2.9)
Real Estate Tax @ proposed Rate	$0	$16.0	$16.0
Lodging Tax Increment	$3.100	$3.965	$865K
Amusement Tax (2.5%rate increase)	$465K	$624K	$159K
Total	**$155.0**	**$169.1**	**$14.1**

EXPENDITURE CHANGES

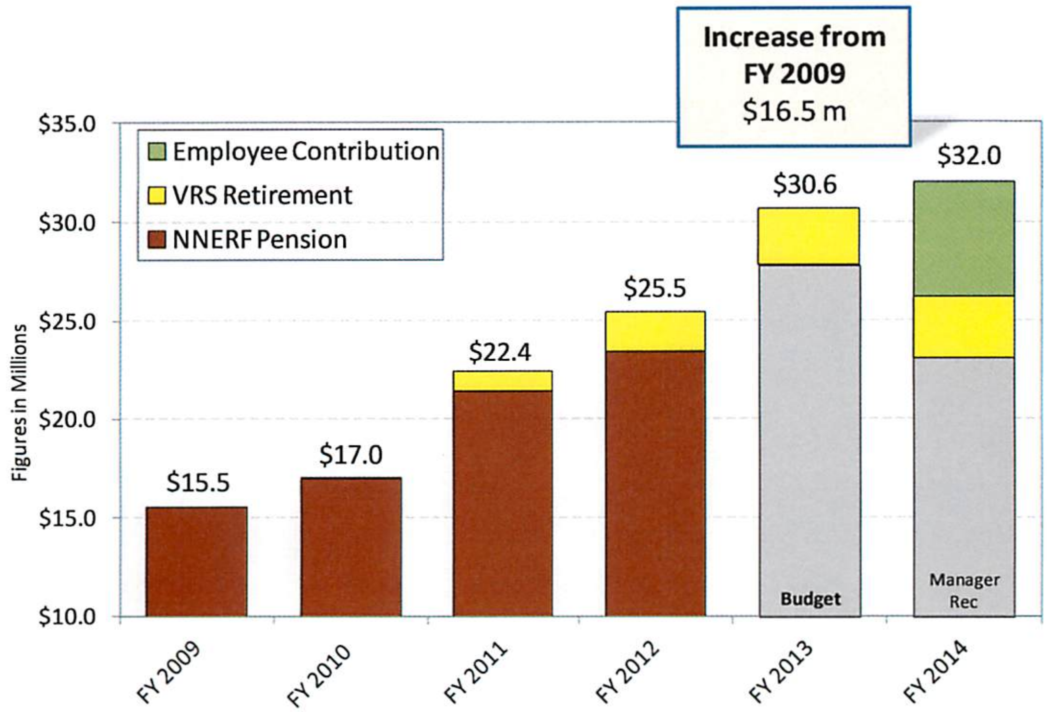
In September 2012, after identifying the known expenditure drivers for the upcoming budget, I instructed my Management Team to review all of their departmental operations and provide me with intelligent, practical, and sustainable reductions that would once again focus on core functions, increase efficiency by reducing or eliminating non-essential operations, and/or reorganize staffing to accommodate the highest priority of those core services. The target reduction for all departments was initially five (5) percent. To achieve this magnitude of cuts without a revenue increase from taxes and fees, there would have had to be sustained reductions and program eliminations that could only be categorized as untenable. Given several years of cost cutting, not surprisingly, most of the significant cuts that I reviewed involved curtailing services that I believe City Council and citizens would oppose. As you know, since FY 2009, operational expenses have been reduced substantially. Reductions and other changes are summarized in the Recommended Budget document under the blue tab labeled *Expenditures*.

There are six general areas where this recommended budget reflects increased spending or funding of a new initiative. These areas include pension contributions, health care premiums, the City's contribution to the School Division, full-year operation of the Denbigh Community Center and 311 Customer Contact Center, an employee salary adjustment, and restoration of basic operational funding (paving, Cash Capital contribution, vehicle and technology replacement equipment).

Pension Contributions

We remain committed to an eight-year plan to incrementally increase the City's contribution to the Annual Required Contribution (ARC) to the Pension Fund. FY 2014 will be the fifth year in this process. This is a fundamental expense of our operating budget; the recommended budget brings the ARC up to 73% from 65%. The annual sustainable contribution to the pension system is $23.1 million City-wide, with $5.7 million in additional funding from the 5% salary contribution of all NNERF employees. This recommended amount is consistent with our plan to completely restore the actuarial position of our pension fund over time, and is achievable due to the City Council adopted changes to the Pension system in October 2012. While these changes lowered the overall ARC dollar requirement from $56 million to $41 million over the planned eight-year period, we choose to maintain the scheduled percentage rate increase at the same level originally planned, rather than have the FY 2014 annual contribution equal to the FY 2013 level of $28.9 million in addition to employee contributions. The choice of remaining on the planned percentage increase of the ARC allowed us to divert some of the funds that would have otherwise gone to the Pension contribution to other priorities. It is important to recognize that the School Division is a separate but important participant in this pension funding process and has budgeted for the same percentage increase in the Superintendent's recommended budget at slightly more than $7 million for FY 2014.

History of City Pension Contributions City-wide



As a member of Virginia Retirement System (VRS), we fully fund the annual contribution for those employees hired or rehired after March 1, 2010 or who elected to shift from the City's pension system. As more of our workforce participates in VRS, so grows our annual contribution. This fact, plus the change in the VRS actuarial assumptions for the upcoming fiscal year, increased the General Fund payment by $372,326 from $2.1 million to $2.4 million. This annual VRS funding is in addition to the FY 2013 State mandate that required municipal employees of localities enrolled in VRS to pay a 5% contribution toward retirement. You will recall that this mandate also stipulated that those same employees receive a salary adjustment of 5% to offset the cost. As a separate State requirement, we must participate in a Line of Duty Act program that provides benefits to first responders who die or become disabled in the line of duty. The City has made the decision to be self-insured for this expense (versus participating in a VRS program), and thereby reduced the anticipated expense from $450,000 in FY 2013 to $250,000 in FY 2014.

As a point of reference, in FY 2013, a significant change occurred in the representation of retirement costs for City employees in the budget. The annual pension cost is a fundamental expense, whether through the City's independent pension program or through VRS. For that reason, all costs associated with retirement have been moved from the individual departments of the General Fund and consolidated in the Nondepartmental cost center. (Retirement expense funding for all Special Revenue and Trust Funds remains in those Funds). This shift of expense allows for increased transparency as to the total cost of retirement expenses, an easier year-to-year comparison moving forward and better fiscal control.

Health Care Costs

Health care costs continue to rise, with an insurance increase anticipated in FY 2014 of 5% beginning in December 2013. The annual increase is generally based on the prior-year claims and services provided to our employees. The resulting impact to the General Fund is a health care cost increase approaching $1.5 million, with an additional cost increase of over $336,000 spread across the other operating funds in FY 2014. Without the benefit of eliminated positions contained in this recommended budget, the amount would have been higher. This benefit continues to be an important factor for our employees, as part of our overall compensation package, as other employers have targeted this benefit as cost savings by reducing their contribution to this cost. For the City, particularly our family health insurance benefit, it remains a strong recruiting tool and acts as additional leverage for soliciting qualified candidates when all other aspects of employment are equalized between the localities.

While a critical element for employee compensation, increases in health insurance premiums have unfortunately become an annual budget challenge for the City. Careful plan management and lower experience costs are the keys to keeping the premium increase responsibility low, but these two aspects have their limits and will only contain costs but so far. Therefore, during the current fiscal year, we took actions to break from the same health insurance decision-making parameters as in the past, as we could not continue to experience premium increases absorbing a larger share of our revenues each year.

A multi-pronged approach has been developed to attempt to curb the growth in this annual expense. As a first step to reducing long-term health care costs, we changed the traditional premium rate payment from the ratio of 75% City/25% employee contribution toward the total premium cost, to a set dollar value the City would contribute during the fiscal year. The next step was in FY 2013, the City began offering three choices (instead of one) for Health Insurance policies: the traditional

Preferred Provider Organization (PPO) plan, a HMO-Point of Service plan, and a high deductible plan. With each plan option, the individual is able to choose the coverage that best suits their needs, while the City and the employee both are managing their health care dollars in less expensive and less robust plans, and thereby encouraging employees to take a more active role in reducing their annual costs over time. To approach the long-term overall health care costs, the City intends to establish a formal, defined Wellness Program with initial funding for this program included in the Recommended Budget at $100,000.

Fuel Prices

Fluctuating fuel costs make it difficult to determine a year-long average of per-gallon costs. Vehicle fuel is an important part of our operations, supporting public safety functions, public works activities, and human services programs, among others. Our annual consumption remains stable at nearly 1.2 million gallons. For FY 2014, fuel prices are predicted to remain level with FY 2013. For the current fiscal year budget development, in March 2012 fuel prices were on the rise, and thus were budgeted at what was believed to be the appropriate level for FY 2013. While the price of fuel was high during the first months of this fiscal year, costs have declined again and have remained slightly lower than were originally projected for the average for the fiscal year. The FY 2014 Recommended Budget assumes an average fuel purchase price of $3.25 per gallon, which is a decrease from the FY 2013, budgeted per gallon rate of $3.60. The resulting FY 2014 impact to the General Fund is a fuel cost decrease of ($167,462). This remains a sensitive expense and if fuel prices trend upward, we may need to change the rate forecast for vehicle fuel closer to the final budget reconciliation for FY 2014.

Contribution to Schools

Local support for public education remains a critical component in the budget. I am recommending a contribution of $115,300,000, which provides an increase of $1.9 million; 1.7% higher than the current fiscal year. This amount includes $12.4 million in City funding for Schools debt service.

The City has increased funding to Newport News Public Schools (NNPS) for the past three fiscal years, signaling our commitment to public education. In a time when the State has made massive reductions in its support to Schools (from $194.8 million in FY 2009 to a low of $158.4 million in FY 2012), Schools too have been faced with higher pension contributions, as well as funding the State-proposed teacher salary adjustment of 2%, effective July 1, 2013, (with an additional 1.5% salary adjustment to reach the State-mandated 5% employee contribution to VRS). While the State's FY 2014 budget proposes to restore funding from the Commonwealth back up to the $163.8 million level, this additional contribution from the City of $1.9 million will help to lessen the gap due to the elimination of Federal stimulus funds and impact of the other pressures on the Newport News Public Schools' budget. From a broader City perspective, this additional contribution to Schools aids in teacher recruitment and retention by assisting NNPS' proposed salary increase.

Employee Compensation and Benefits

The recommended operating budget includes funding for a general wage increase for eligible City employees of 2%, effective July 1, 2013. The cost of this salary adjustment in the General Fund is $2.5 million and $3.3 million City-wide. The percentage increase equals what the State is proposing for a base increase for teachers and for other State employees, and does allow for a full fiscal year salary adjustment. I believe most localities in Hampton Roads are proposing a similar increase.

Full-Year and Restoration Funding, New Initiatives

The operation of the 311 Customer Contact Center, anticipated to begin operations in late FY 2013, will be fully funded in the upcoming fiscal year. Directly supporting our Fiscal Management and Efficient Operations Strategic Priority, this function will change the way that we communicate with our customers as a City, with the 311 Customer Contact Center providing a "one-stop-shop" to answer questions and receive citizen concerns and issues. The FY 2013 Budget includes $332,508 for this operation, funding for six full-time positions and part-time staff. Full-year functionality in FY 2014 is proposed at $455,356; the 311 Customer Contact Center will include ten full-time positions (One Communications Manager, One Communications Supervisor, one Configuration Analyst position, and seven Customer Service Assistants, two of these positions being new allotments and partially funded in FY 2014), as well as part-time staff. The remaining funds will be used for overall operating expenses such as Contractual Services, Telecommunications, and Supplies.

Beginning on July 1, 2013, the City and surrounding localities will no longer use the SPCA facility for animal sheltering services. Currently, a new 29,000+ square-foot animal shelter is being built in the City. Based on the construction completion date, operating costs to open and run the animal shelter for 11 months, including salaries, land rent, capital reserve, and certain other costs will be prorated to the participating localities. (Debt Service will be paid in the full amount and needs to be paid regardless of opening in FY 2014). The localities' shares of operations are Newport News 47.21%, Hampton 35.86%, Poquoson 3.19%, and York County 13.77%. Potential revenue from adoption fees, spay/neuter charges, and micro-chipping would go to offsetting the localities' costs for operations and debt service. The City's prorated portion of the new Peninsula Regional Animal Shelter operating costs is $395,872, with the City's share of debt service at $300,199, for a combined cost of $696,071. At the same time, and while the new facility is under construction, the City will continue to use the SPCA sheltering facilities on a month-to-month basis. Included in the proposed FY 2014 budget is an anticipated six months of payments to the SPCA at the current rate, to allow for flexibility in the opening of the new Regional Shelter. This represents ($236,999) in savings for the remainder of FY 2014 that offsets the cost of the new facility operations.

The Tourism Zone Benefit of $1,271,983 is based on a State program that allows for new businesses in the City's designated Tourism Zones to receive back, under specific conditions, a percentage of new sales, and food and beverage taxes generated during an agreed-to timeframe. Based on new businesses open or soon to be operating in these Zones, there is the potential for these funds to be reimbursed to the vendor. The offsetting new revenue created by these businesses is estimated in Sales Tax and Meals Tax for FY 2014.

In FY 2014, a new component will be created in the General Fund's Nondepartmental section to provide additional program funding for Strategic Priorities of the City. The priorities include Economic Development and Redevelopment, Environmentally Sustainable Local Government Policies, Community Renewal and Maintenance, Fiscal Management and Efficient Operations, and Maximum Emphasis on Public Safety.

For the Economic Development priority, funding in FY 2014 in the amount of $650,000 is for a new Cultural Attractions fund, which will be supported by the proposed Lodging Tax change. The purpose of this new Fund is to be a resource for both public and private museums and cultural centers to solicit the City for additional capital and operational support during the fiscal year. Funding of $152,500 for grass cutting and litter removal for vacant and City-owned lots and other visually critical projects will be for the City's Community Maintenance initiatives. These funds also include additional money for three (3) new areas of landscaping (the Grissom Municipal Annex, Denbigh Community Center, and the sound wall at Jefferson Avenue at J. Clyde Morris Boulevard). Initial funding for the emerging Youth, Gang, and Gun Violence Reduction program is budgeted at $1,100,000.

The City has a current vehicle and heavy equipment fleet of over 1,500 items, with a replacement value of $87 million. Adequately funding this expense has been a challenge at best, and in addition to annual budgetary funds, we have depended on prior year surpluses to meet funding requirements for the replacement of this fleet. In order to meet our reduced revenues, we have stretched the life span of the vehicles to the point that repair and maintenance are becoming more costly than actual replacement of our rolling stock. To compensate for underfunding and to the replace equipment that is actually scheduled to reach its maximum performance levels in FY 2014, the funding level would need to be $5.9 million in the General Fund alone. The sustained annual General Fund replacement level should be $3.2 million. Instead, we have only managed during this recession to afford $750,000 in the General Fund. For next fiscal year, I am recommending a total of $1 million for vehicle replacement in the General Fund, which is a $250,000 increase. These monies, along with the proceeds from the sale of surplus vehicles will bring us closer to our goal of restoring adequate funds for annual vehicle replacement.

Much like vehicle replacement, the City historically has not budgeted for the ongoing replacement of Information Technology (IT) equipment. This was true prior to the recession, and IT equipment funding unfortunately was an easier target for reduction when faced with the choice of eliminating jobs or services. However, it is essential that the City remain as current as fiscally possible in the Information Technology area, as modern technology is designed to enhance workflow and operations, thereby allowing us to leverage our employees' workday to the maximum. An example of this is the computers that are found in all Police cars and Fire apparatus that provide up-to-the-minute databases, communications tools, and other technology access. Since FY 2007, the City has used a General Fund contribution to the Information Technology Investment Fund for routine replacement of computers, servers/controllers, major software purchases and enhancements. The annual request for these types of purchases generally is close to $3 million, but our ability to fund these replacements has been limited to $500,000. I am proposing an increase in annual funding of $950,000, bringing the funding level to $1,450,000 for FY 2014. This is still short of what is needed annually for the regular replacement of IT equipment as it wears out or has become technologically obsolete, but it is an investment that we need to make now. As we grow more dependent on technology, this funding becomes even more critical.

To be able to fund the six expansion areas, the FY 2014 recommended budget reflects reductions in most other operational expenses, as well as the recommended rate and fee increases. In other words, those reductions are net of these necessary increases. There are few enhancements based on contractual circumstances or specific needs. As expected, in response to falling revenues, it was necessary to reduce service levels in some areas, as detailed below.

SERVICE IMPACTS

Reduction in Force, Redirected Staffing

I am recommending a net reduction of 18 positions in the General Fund for FY 2014, with a net reduction of seven other positions City-wide. We have cut a net total of 163 positions City-wide over the past five years, with this reduction representing a 6% decrease of our workforce. This net reduction would have been higher; however in FY 2014 the City will become the operator of the new Peninsula Regional Animal Shelter, with the addition of eleven (11) new positions in that operation. And of course, we must operate the new Denbigh Community Center. One position is being eliminated from the Historical Services Fund and twelve allotments from the Public Utilities (Waterworks) Fund. Two positions are moving from the General Fund to the Stormwater and Wastewater Funds, as their duties primarily support those operations, and new positions are being added to these Funds in support of the required work for the Regional Consent Order for sanitary sewer operations.

The net number of position reductions identified above does not represent the full number of reduced positions over the past years. Some of the positions that have been eliminated have been repurposed to support efforts to improve efficiencies and/or to enhance our efforts and citizen responsiveness in critical areas. Examples of these are the staffing of the

311 Customer Contact Center and Denbigh Community Center in FY 2013, or the new positions at the Peninsula Regional Animal Shelter.

With the City being a service organization, it is clear that the majority of our operating costs are invested in our employees as salaries and fringe benefits. For FY 2014 and consistent with past budget preparations, my approach again was to attempt to minimize any layoffs. With the scale of eliminated positions in the past, and fewer employees performing essentially the same services as a workforce equal to 10 years ago at the FY 2004 level, it is hard to find positions where the operational cost of a function is clearly no longer justifiable. It is only in those instances where I have recommended position eliminations. The number of actual recommended reduction-in-force positions is eight (8) full-time employees and thirteen (13) vacant positions. In addition, three (3) positions transferred to other operating funds, and six (6) positions will be added. Three (3) of the new positions were considered essential to operations and therefore created by the elimination of other departmental vacancies. The remaining three (3) positions were anticipated in the current fiscal year for the full staffing of the 311 Customer Contact Center. The net position change in the General Fund for FY 2014 is 18 fewer positions; the chart below details the proposed position changes.

General Fund Position Changes

Position Type	Filled	Vacant/ Transfer	New	Net Change
Front Line	-4	-7	4	-7
Management	0	-1	0	-1
Professional	-3	-6	2	-7
Support/Clerical	-1	-2	0	-3
Total	**-8**	**-16**	**6**	**-18**

Due to the partial hiring freeze that we have had in effect since the fall of 2009, we have been able to eliminate resulting vacant positions. The functions of these vacancies are no less important, and those duties have been added to the workload of remaining positions. The Attrition Credit that was first instituted in FY 2009 at $1 million is now almost $8.8 million City-wide, with 73% (or $6.4 million) in the General Fund alone for

FY 2014. (An Attrition Credit reduces a department's budget for salaries and fringe benefits based on an anticipated lag time between an employee termination and when a new employee is hired.) This budget was balanced due to these ongoing savings. As a reminder, the City has an established Reduction-In-Force (RIF) policy that allows for any employee who would lose their current position due to a reduction in force, to have the opportunity to apply for, and if qualified, be placed in vacant positions over other applicants. After five years of cutting positions, this continues to be the most difficult choice that is made when developing a proposed budget. It is my hope that most of the individuals affected by the RIF have the opportunity to find different employment with the City.

<u>Service Reductions</u>
Without the revenue generated by the proposed Real Estate Tax rate increase, noticeable and unacceptable service cuts would have been recommended in this budget. Reducing positions, consolidating efforts where possible, leveraging technology, and increasing some fees and taxes have been our strategies in the past, but we are to the point where these actions are either insufficient to cover the operating needs or where core services would be curtailed. As a result of the supplemental real estate tax revenue from the rate increase, there will be a minimum impact on service delivery to our citizens. Newport News continues to have an exceptional range of services, which is an important quality-of-life consideration for retaining current residents and attracting new businesses. In an effort to mitigate the level of the Real Estate Tax rate increase, there are some areas where reductions in service levels are recommended.

Parks, Recreation and Tourism functions will be impacted in two areas by this recommended budget. First, I am recommending that the City-maintained public pools be consolidated and Magruder Pool be closed. This facility is a badly aging pool that continues to leak water, which most likely has lead to the deteriorating piping and under-pool ground erosion, possibly resulting in causing other structural damage. There would have to be a major capital investment now in order to open and continue to operate. In addition, the Magruder Pool location is in part the site for the new Magruder Elementary School. With the Doris Miller pool less than one mile away, I am proposing increasing the Doris Miller facility operations to seven (7) days per week and hours opened from 40 to 55 hours per week. These additional hours will accommodate users from both pools, allow for longer hours of operation, and for special swim times/events. To compensate for the closing of the Magruder pool, the Doris Miller pool budgets would increase by $34,698 to accommodate more staff and operations (e.g., chemicals) in order to extend the hours. The net savings of closing Magruder pool is ($30,527) in addition to the current year savings in the spring start-up (repairs and renovations) costs needed to make that facility pass the annual Health Department inspection. By making the decision to close Magruder pool now, we avoid new expenses and assist NNPS in advancing the construction of the important new school.

There is also the elimination of one (1) full-time Marketing Coordinator position ($62,230) in the Historical Services Fund. The position is the coordinator of Historical Services website, social media and three (3) gift shops. The proposed elimination will cause these responsibilities to be reassigned to other staff members. While the position is in the Historical Services Fund, the reduction would come from the Nondepartmental annual contribution to that Fund.

In the Libraries and Information Services Department, I am recommending reducing operating expenses by ($206,000). This will occur by repurposing the West Avenue Branch ($133,600 in savings), and by the reduced personnel costs anticipated by centralizing and consolidating the computer lab training staff ($54,250).

The West Avenue Branch as a public circulation location is recommended to close in FY 2014. This Branch has been experiencing declining circulation and has been operating with reduced service hours since FY 2011. It is currently open on Mondays, Wednesdays, and Fridays. It is within two miles of the Pearl Bailey Branch and within five miles of the Main Street Branch. This closure will result in the elimination of two (2) full-time positions, a Supervising Librarian A position, a Senior Information Services Specialist position, as well as various operating expenses. The part-time staff will be moved to the Pearl Bailey Branch to absorb any additional service demands at that location. The library collection will be moved to the South Morrison outreach facility. The building itself is historical and needs to be maintained, including the Christopher Newport mural contained there. The best use of the space is to relocate the Technical Services (the library materials acquisition and cataloging functions) staff from lower level of the Grissom Library Branch. In the future, the Grissom Branch is anticipating a renovation/maintenance of the existing space. In anticipation of this, moving the Technical Services function to the closed the West Avenue

Library Branch allows for the best program flexibility within the Grissom Library Branch during renovation, as well as keeping the West Avenue Branch building maintained with daily operational use. As part of the West Avenue Branch closure, a book drop will be maintained at the site, to allow patrons to return books at the facility. The closure is expected to save ($133,603). As the building will be fully maintained, the City could choose to reopen the Library in the future should that be desirable.

To assist the City in meeting its Workforce Development goals and to enhance efficiencies, a decision was made to centralize the existing Libraries Computer Lab training staff from each individual branch to one location, the South Morrison facility. This will result in the elimination of one (1) Computer Lab Specialist position ($54,250), with the remaining two positions supporting the three branches (Grissom, Main Street, and Pearl Bailey), along with a new second computer lab for public use at the South Morrison facility. This consolidation is not expected to reduce any of the services or classes currently being offered at the branches, but allows for a more efficient and centralized coordination of services by computer lab training staff members.

Innovations and Efficiencies

I am recommending some changes that will affect specific departments and some overall City operations, with the potential for substantial savings and improved citizen responsiveness.

For the Fire Department in FY 2014, the department will create a pool of part-time medical providers to staff medical transport units during peak hours to provide a savings by reducing the amount of overtime used by the full-time EMS and first responders by ($90,040). This also enables these personnel to fill other shortages that may exist in daily staffing. The department will also reclassify three (3) Firefighter/ Medic positions to three (3) Staff Lieutenant positions to provide savings in the overtime staffing costs of ($36,644). This will also expand the pool of candidates for promotions, and give the added flexibility to adjust schedules and assign Officers to assist with other administrative tasks.

In support of our Strategic Sustainability efforts, the Public Works Department will contract services from an energy audit firm with the goal to find approximately $150,000 in energy savings City-wide.

There are two internal efficiencies that I am proposing, which will have only an effect on City central services operations. First is the consolidation of the Police and Central Warehouse functions during FY 2014. A plan is being formulated that will provide for the proper inventory and just-in-time stocking of essential and emergency items, and appropriate staffing in a shared space. Recognizing the uniqueness of each operation, both functions will be fully funded for the first six months of the new fiscal year, with the goal to be consolidated for the second half of FY 2014. This will ultimately eliminate one position from each department for a total savings of ($100,000). Additional cost savings will occur within the Police and Central Warehouse operations as part of this consolidation.

The second efficiency that I am recommending is to change the scope of work performed by the City's Print Shop to provide a more limited operation for basic, routine, or highly confidential products. All other print jobs will be contracted out to vendors. This focus shift results in the elimination of two Printer positions ($95,732).

OTHER OPERATING AREAS

Debt Service and Cash Capital

General Fund support for the City's Debt Service will be $36,450,390 in FY 2014. This figure includes payments for outstanding General Obligation Debt and a full-year expense for bonds issued in July 2011 and in September 2012. It also reflects the combined saving in debt service generated from three bond refunding of over $142 million that took place in calendar year 2012. The Recommended Budget assumes no new General Obligation bond issuance during FY 2014, with the anticipation that our current bond cash could be stretched until early winter 2014, which would be in fiscal year 2015. Even with the potential capital project of the magnitude of replacing an elementary school in the near future, through prudent cash flow management of bond proceeds we expect to be able to stretch our bond cash for more than 18 months from the issue date.

Cash Capital, a component of the City's adopted Capital Improvement Plan, is budgeted at $3,894,246 or $1 million more than the current fiscal year. The adopted FY 2014 - 2017 Capital Improvements Plan (CIP) anticipates using $6,220,000 in cash capital funding, with an additional $3,300,000 from the Special Projects Fund to satisfy our Capital Financing and Debt Management Policies requirement of 20% cash capital funding. If all Cash Capital and Special Reserve Funds are used for these projects, a total of $9.5 million will be funded, reaching a 27.6% level of cash capital funding. Cash Capital allows for current operating funds to be used to fund less expensive and more regular capital investments (e.g., roof and HVAC replacements, and capital equipment) to decrease reliance on bond cash for shorter term capital projects. By using $1 million of the additional revenue generated by the real estate tax increase, we are able to close the gap on the funding needed to support the extensive and necessary list of cash capital projects in the FY 2014 CIP.

Community Support and Regional Organizations

My recommended funding for the thirty-one (31) Community Support agencies that are supported by the City is basically equal to the current fiscal year at $2,244,989. Regional Organizations that the City is a member or participant of is $6,792,627, which is also level funding, maintaining the bus services that we currently have. The FY 2014 combined Community Support and Regional Organizations amount is proposed at $9,037,616. This represents an increase in funding of $480,490, or 5.6% from FY 2013.

For FY 2014, the goal in formulating the Community Support and Regional Organizations recommendation was to maintain level funding for organizations that provide services to our citizens. For a majority of the Community Support agencies, annual reductions have been imposed on them since FY 2010. Many of these organizations augment City functions, and by reducing them any further, we would stand the chance of losing services that we depend upon that are provided at a reduced cost.

For all Community Support agencies, funding will be equal to the FY 2013 level, which is essentially the FY 2012 amount, with one exception. Funding in the amount of $66,263 for the Virginia Arts Festival will be eliminated. Should this entity choose to program events in Newport News which we wish to support, my proposed Cultural Attractions Fund could be a potential source of funding.

Regional Organizational Agencies are those where most of the City's contributions are based on a contractual agreement on a per capita support level. The Hampton Roads Planning District Commission, recognizing the fiscal stress that its member localities are under, submitted a FY 2014 request that included a 5% reduction from the contractual agreement would have generated. No other Regional Agencies offered reductions voluntarily. I am recommending level funding in FY 2014 for

these agencies with three exceptions: removal of funding for one agency and increased funding for two organizations. I am recommending the elimination Hampton Roads Partnership in the amount of $14,450.
For the two transit agencies that support the Newport News citizen, I am recommending funding increases. For Williamsburg Area Transport Authority (WATA) that provides bus service between James City County and HRT's Lee Hall stop in Newport News, an additional $10,000 in funding is proposed to support the 13% increased in ridership since FY 2010.

In the past, HRT funding has been difficult to determine. At the outset of each year, HRT estimates its costs for the year and generates a budget for each of the participating localities. At year-end closing, HRT provides either a credit or an additional charge to each locality on a prorated basis based on the total cost of operations for the Agency as compared to the amount of the locality funding during the fiscal year. HRT requested a combined $5,751,843 from the City in FY 2014. This represented an increase of $551,203 over the currently estimated expense for FY 2013. This increase of 9.6% maintains the same level of service and routes that the City is currently engaged in, and includes anticipated savings from an efficiency study conducted by HRT in FY 2011 that resulted in some route changes beginning in January 2012. The majority of the increase is right-sizing our paratransit service hours for FY 2014 to be equal to what was actually used in FY 2012. Approximately $279,000 of the increase is associated with increasing the paratransit numbers used by 3,270 hours. To maintain the regular routes, the special events service we have now, and for higher HRT administrative costs, the increase is $272,000 in FY 2014.

At this point, I have recommended funding for HRT of $5,751,843 in FY 2014. However, it has become very clear that regardless of the efficiencies that we desire and the level of funding we provide, there is no assurance that we will avoid a costly year-end reconciliation expense from HRT for operating cost allocation from the other participating localities.

The final amount recommended in Community Support and Regional Agencies is a Contingency amount of $30,000. While not specifically designated, this would allow for funding during the fiscal year for agency support as designated by City Council or the City Manager, if deemed eligible by the City Attorney's Office.

There were nine (9) agencies that solicited support in the amount of $238,292 that are currently not funded by the City. Some of these requests were for the restoration of funds eliminated in prior operating budgets and some were new grant requests. I am not recommending any new initiatives in such a challenging budget year that would require reducing funding to existing agencies that continue to provide important ancillary services to our citizens. In addition, I am continuing to suspend the program that allows for eligible agencies to request reimbursement for Real Estate Tax or Personal Property Tax payments made in the preceding fiscal year. I cannot endorse further eroding our revenue base in the current budgetary environment.

RATES AND FEE INCREASES

This balanced budget has been achieved with practical, sustainable expenditure reductions and with tax rate and fee increases. In the past, a Real Estate Tax rate increase has been avoided by maximizing the stronger performing local revenues and real budget cuts. We are at the point with declining Real Estate Assessment values and a still-lumbering economic recovery that no options will generate the level of General Fund revenues required to sustain current service levels without changing the real estate tax rate. To recap, I am proposing raising the Real Estate Tax rate by twelve (12) cents, the Lodging Tax by 0.5% and instituting a flat $1 per day Lodging Tax, as well as raising the Amusement/Admission Tax from 7.5% to 10%. Combined, the net revenue generated will be $14 million, taking into consideration the revenue lost by the lower Real Estate assessments.

For the User Fund fees, there are increases driven by mandates, and therefore rate increases are unavoidable. In the Wastewater and Stormwater Management Funds, these rate increases are driven primarily by the impact of the Consent Order and other environmental regulations. As detailed in the recent presentation to City Council, our requirement to reduce or eliminate sanitary sewer overflows and reduce the flow of pollutants into our waterways will require prompt studies and investment in system improvements. As these mandates affect all localities in Hampton Roads, consideration is being given to creating a regional wastewater organization that would take over the management and operations of wastewater processes. This review is massive and highly intricate, as consideration of a multitude of aspects unique to each locality must be weighed and valued. For this reason, some of the rehabilitation work has been slowed until a decision on regionalization is made.

However, this study does not relieve us of our immediate obligations, nor does it remove us from a long term and very costly proposition, regardless of the results of this study. To address the Wastewater and Stormwater Funds needs, I am recommending that both rates be increased: on Wastewater from a rate of $2.79 per hundred cubic feet used to $3.21, and on Stormwater from $7.45 per ERU monthly to $8.00 monthly. In the Solid Waste Fund, the $0.50 per-week increase on the container rate is necessary to cover the cost of operations. These proposed rate changes are shown below:

SOLID WASTE USER FEE	Container Size	Per Week (each)	**Container Size**	**Per Week (each)**
	Medium	$4.60	**Medium**	**$5.00**
	Standard	$5.75	**Standard**	**$6.25**
STORMWATER MANAGEMENT FEE				
Rate/Equivalent Residential Unit/Month	$7.45		**$8.00**	
Annual Rate per 1 ERU	$89.40		**$96.00**	
SEWER USER FEE				
Rate/100 cubic feet/month	$2.79		**$3.21**	

For Public Utilities, there continues to be a decrease in water demand consistent with other water utilities nationwide. Following an observed decrease in demand of 5.5% from FY 2011 to FY 2012, an additional decrease of 5% is now projected for the current fiscal year (FY 2013). A slightly lower additional reduction of 3% in customer demand is being forecasted for FY 2014. This observed demand trend prompted City Council in FY 2012 to begin to shift the rate structure to collect more revenue from fixed service charges and less from volumetric use. This approach is consistent with the cost structure of the utility as cost of operations is predominantly fixed and nearly independent of volume of water sold. With the planned "right-sizing" of the anticipated demand for FY 2014, the need to more aggressively adjust the fixed service charges to customers is necessary.

Therefore, I am also recommending that some Water fees be increased in FY 2014. The Water Rates themselves will be at the same level as FY 2013. Waterworks continues to reduce operating expenses where possible, but these savings do not make up for declining water consumption. The proposed rates are shown below:

WATER RATES

Water Consumption Rates per one hundred cubic feet (HCF):

Fee	FY 2013	FY 2014
Single-Family Residential Bimonthly		
R1 Low Usage Lifeline (0 to 4 HCF)	$3.08/HCF	**$3.08/HCF***
R2 Normal Use (Greater than 4 to 50 HCF)	$3.55/HCF	**$3.55/HCF***
R3 Conservation Tier (Greater than 50 HCF)	$7.10/HCF	$7.10/HCF
Industrial Monthly		
I1 Tier 1 (0 to 40,000 HCF)	$3.55/HCF	$3.55/HCF
I2 Tier 2 (Greater than 40,000 HCF)	$3.08/HCF	$3.08/HCF
General (All Other Consumption)		
G - All other usage	$3.55/HCF	$3.55/HCF

****Please note, while the Rate per HCF is proposed not to change in FY 2014, the Low Usage Lifeline threshold will change from 6 HCF to 4 HCF***

	FY 2013		FY 2014	
Meter Size (Inches)	Monthly Charge	Bi-Monthly Charge	**Monthly Charge**	**Bi-Monthly Charge**
5/8	$6.60	$8.70	**$14.70**	**$22.00**
3/4	$7.90	$10.90	**$17.60**	**$27.90**
1	$10.60	$15.50	**$23.50**	**$39.60**
1 1/2	$26.00	$47.00	**$38.00**	**$69.00**
2	$39.00	$72.00	**$57.00**	**$106.00**
3	$83.00	$160.00	**$122.00**	**$235.00**
4	$120.00	$235.00	**$176.00**	**$345.00**
6	$221.00	$437.00	**$324.00**	**$641.00**
8	$342.00	$679.00	**$502.00**	**$996.00**
10	$480.00	$956.00	**$704.00**	**$1,402.00**

The user fee increases are largely unavoidable, as they are driven primarily by regulatory requirements. I am confident that every effort had been made to reduce costs where possible, increase operational efficiencies, use reserves of the funds as appropriate, and yet there are no other options under the burden of these mandates except for recommending these increases. Below is a chart that shows the potential impact on an average homeowner of all the rate and fee changes that this recommended budget contains. Taking into account the average decline in real estate assessments in the upcoming year, the typical homeowner will still have lower Real Estate Tax burden than in FY 2008, while retaining the current service level that they enjoy.

This table is based on the values associated with a household of four and had an average 2013 real assessment of approximately $175,500. (This same median assessment valuation was $201,350 in FY 2009.)

FY 2014 - Impact on Typical Household	*Weekly Increase*	*Monthly Increase*	*Annual Increase*
Real Estate Tax	$3.23	$13.98	$167.78
Stormwater Fee	0.13	0.55	6.60
Solid Waste Fee	0.50	2.17	26.00
Sewer User Fee	0.53	2.31	27.72
Water Fees and Rates	1.70	7.36	88.26
Total Impact	**$6.08**	**$26.36**	**$316.36**

MOVING FORWARD

I believe this operating budget recommendation positions the City and our community for the future.

Over the next several years, the economic conditions that set the parameters of the City's fiscal environment are likely to be characterized by slow growth. Real estate values should stabilize, and cuts from the State should level off as the Commonwealth's income-tax-driven budget gradually improves. To be realistic, dynamic revenue increases from either real estate or State programs are unlikely. Local taxes should continue to grow modestly, but the effect on the full impact of the Federal sequestration and the broader decline of Federal spending, will no doubt have a dampening effect on any local recovery. While the future path the economy will take still remains unclear, current trends suggest that this community will largely be prepared to manage its fiscal challenges, meet its commitments, and take advantage of opportunities that arise.

Moving forward, we should continue to use our Strategic initiatives as guides for making judgments about where to invest our limited resources. This budget is fully consistent with these priorities and strengthens the community's ability to make further progress in the years ahead.

CONCLUSION

In summary, I have submitted a balanced budget with a minimum of service delivery reductions. The Recommended Budget includes necessary tax rate and fee increases, and additional reductions to achieve the level of City operations desired by our citizens and/or mandated by higher levels of government. This budget achieves the objectives of funding our pension and health care obligations, increasing funding to

Schools, funds limited new initiatives in the midst of declining revenue, and provides a salary adjustment for our valued employees. In order to lessen the impact of the rate and fee increases, I am recommending difficult but necessary sustainable reductions. These are all significant accomplishments, given the constraints that we face, and the reductions that we have endured over the past four years. This Recommended Budget maintains the City's hard-earned, well-deserved reputation for strong financial management as we hopefully emerge from the worst economic period since the 1930's.

My staff at all levels and I have worked very hard to develop a budget that is responsive to the current economic climate, and yet maintains essential core services for our citizens. I particularly want to acknowledge the staff of the Department of Budget and Evaluation for their diligence during this process.

While this memorandum highlights the budget in general, specific areas of interest will be detailed in Budget Position Papers, which will be delivered to you on or around April 5. All budget documents will be made available to the public on the City's web site and in all Newport News public libraries. We are also in the process of producing a NNTV program that will be the second in the series on the budget and will discuss key focal points of the FY 2014 Recommended Budget. It will be available to the public in the very near future.

I believe that this FY 2014 Recommended Operating Budget is responsive to our organizational and community needs and that I am proud to present for your consideration. I will work with you and the citizens of Newport News to finalize this budget through upcoming work sessions and public hearings. I thank you for your support.

Neil A. Morgan

NAM:LJC

FY 2014 BUDGET POSITION PAPER

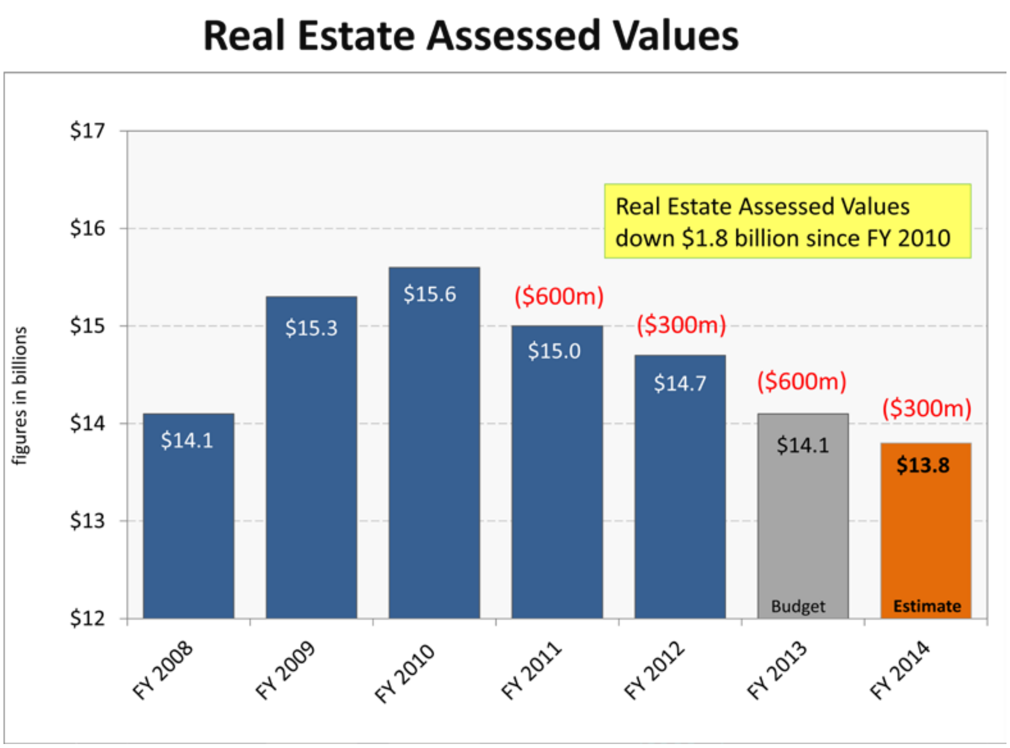
APRIL 2013

TAXES AND REVENUE GENERATION

Issues

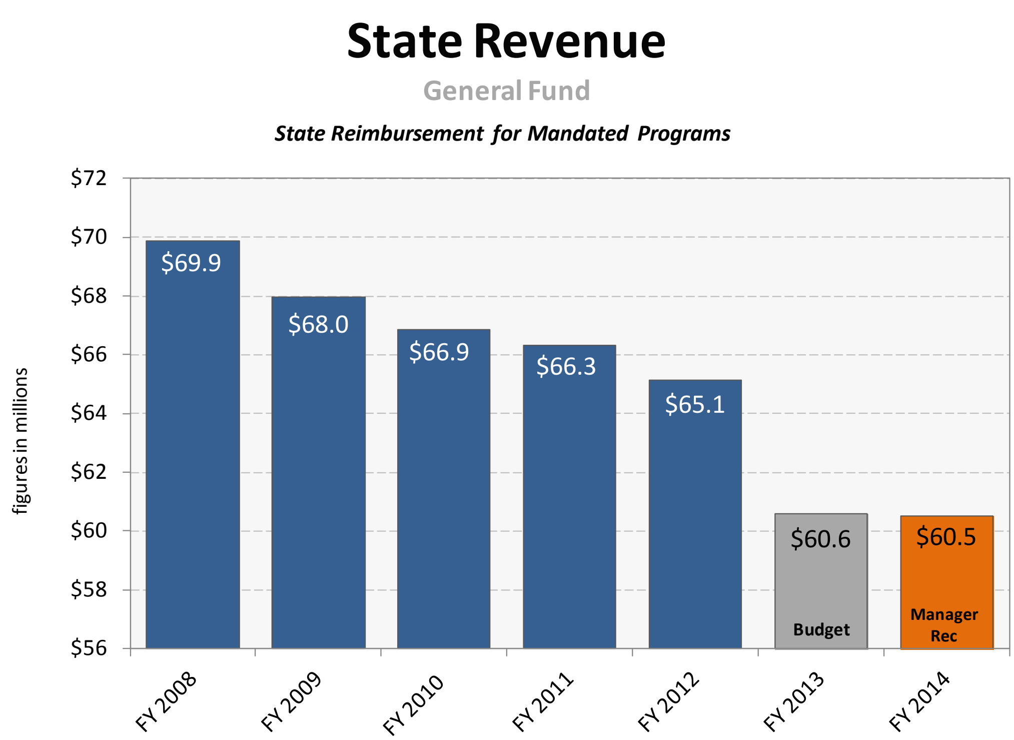
Many factors determine the revenue that the City will receive in any fiscal year. Economic variables that drive revenue include short- and long-term interest rates, employment and income levels, consumer confidence, retail sales, housing demand, and fuel prices. City revenue is also affected by decisions at the State level related to support for public education, social services, and other mandated services and activities. The State also places regulations on the establishment and administration of local taxes and fees.

The factors identified above are constraints found in a "normal" fiscal year budget development process. Over the past six fiscal years, the national economy could not be described as normal. The strength of the national and local housing markets that ramped up to fall 2008 was reflected in the rapid rise in housing values and the associated increase in real estate tax revenue. When the national recession hit in September 2008, the housing market failure had an adverse impact on the City's largest source of revenue, Real Estate Tax. In addition to dramatically declining real estate tax revenue, revenue was lost from a stagnating economy evidenced by high unemployment and home foreclosure rates. During fiscal years 2010 to 2013, the real estate levy dropped from $15.6 billion to $14.1 billion, or a loss of $1.5 billion or 9.6% in value (see graph below).



The decline in real estate assessed values depicted above has resulted in a net loss of $16 million in current Real Estate Tax revenue from FY 2010 to FY 2013. Real estate tax revenue for the FY 2014 Recommended Operating Budget is estimated at $169.8 million, which includes the effect of the proposed 12 cents increase to the real estate tax rate. The General Property Tax category of revenue in the General Fund includes personal property and machinery and tools taxes, as well as monies generated from real estate taxes. This category of funds is estimated to represent 56% of the City's revenue stream for Fiscal Year 2014.

Further complicating the revenue outlook, the Recommended Budget anticipates continued decrease to State revenue. Reimbursements from the State represent the second largest revenue source to the City and are projected to be approximately $100,000 lower in FY 2014 than in FY 2013. This continues a six-year decline of State revenue and reimbursements (see graph below). During this time period, the City has lost a cumulative $7.9 million in direct State Aid to Localities for state mandated programs. As the City absorbed these expenditures within the base budget, the State experienced surpluses in its operating budget. Beyond adjustments to Aid to Localities, the State has effectuated additional reductions including the elimination of ABC Profit and Wine Tax payments. Recognizing the burden continued State funding reductions would have on localities, the Governor's revised FY 2014 Budget recommended "restoration" of State funding for select activities. This "restoration" meant that no new reductions to State support to localities would be levied for FY 2014.



Other General Fund revenues for FY 2014 have been estimated based on a continued slow economic recovery. Locally-generated Machinery and Tools and Personal Property taxes are showing signs of moderate improvement, with increases of $900,000 in each during the current fiscal year. Sales Tax revenue remains on target for collections in the current year. Forecasting limited new retail development with the City for the full year in FY 2014, an additional $857,000 in Sales Tax revenue, or 4% growth, has been added. Meal Taxes are estimated to increase by $1 million.

Funding Strategy

For the past five years, to address the impact of falling revenues, the City has been committed to the aggressive reduction of expenditures through service adjustments and consolidations, elimination of positions and departmental restructuring, and finding effective and efficient methods to deliver the same high levels of service demanded and enjoyed by our citizens with fewer resources. More than 5% of the workforce has been eliminated since FY 2009, with an additional net reduction of 18 General Fund positions included as part of the FY 2014 Recommended Budget. The FY 2014 Recommend Budget includes 2,576 positions, just two (2) more than were included in the FY 2004 Revised Operating Budget (2,574) nearly ten years ago, despite the additional requirements and mandates that have occurred over that same time period. Operating expenses have been reduced in every department, with more cuts proposed for FY 2014.

The FY 2014 Recommended Budget includes sustainable reductions along with tax rate and fee increases. In the past, a Real Estate Tax rate increase has been avoided by maximizing stronger performing local revenues and budget cuts. With declining Real Estate Assessment values and a lumbering economic recovery, no options will generate the level of General Fund revenues required to sustain current service levels without increasing the real estate tax rate. In order to manage daily operating of public safety and corrections, to support public schools, to perform public works operations, to pay outstanding debt obligations, to provide human services safety net programs, to offer competitive compensation for City employees, as well as to offer quality-of-life options to citizens, costs have been cut to the point where the choice is either to eliminate desired services or increase the Real Estate Tax rate.

The proposed rate and fee increases include raising the Real Estate Tax rate by twelve (12) cents, the Lodging Tax by 0.5% and instituting a flat $1 per day Lodging Tax, as well as raising the Amusement/Admission Tax from 7.5% to 10%. Combined the net revenue generated will be $14 million, taking into consideration the revenue lost from lower Real Estate assessments.

Current Real Estate Taxes

The real estate tax is the single largest source of income to the City providing nearly 37% of all General Fund revenues. Property values are based on market values established for the 12-month period of January 1, 2012 to December 31, 2012 (calendar year 2012). The anticipated Real Estate Levy as of July 1, 2013 is expected to decline to $13.8 billion, which is below the level of total assessments in FY 2008 ($14.1 billion).

An average assessment decrease of approximately (2.75%) is anticipated, with most residential property owners paying taxes on homes that have declined in value again for FY 2014. In fact, from FY 2009 to FY 2014, it is estimated that the owner of a home assessed at the median value will pay $116.57 less in real estate taxes, even after taking into consideration the proposed increase to the Real Estate Tax rate.

The continued decline in real estate assessed values and impact on real estate tax revenue reinforces the decision made in FY 2012 to shift the tax abatement program to a tax deferral for our elderly and disabled citizens. Prior to this change, the cost of the tax abatement program had grown to five times its size from 20 years ago. In FY 2012, tax relief represented nearly $3 million in lost tax revenue, exclusive of the impact of the loss of $475,000 in additional real estate revenue from the recently mandated tax relief for Disabled Veterans. Without a change to the tax abatement program, the City would lose substantial and increasing amounts of Real Estate Tax revenue over time. The decision to change to a tax deferral program was responsible, fair to our citizenry as a whole, and forward-looking. As a result of this action, our loss of revenue from the tax deferral program is anticipated to decline from $3.3 million in FY 2011 to $1.7 million in FY 2014. Over time, this revenue loss will be completely eliminated, while the tax benefit is maintained through deferral for most impacted individuals.

Lodging and Amusement/Admission Taxes

So as not to be overly reliant on higher real estate tax rates, adjustments in locally controlled rates of Lodging Tax and Amusement/Admission taxes are proposed. These particular rates are recommended for increase because they are specific taxes that are based on a personal choice and are in part paid by non-residents.

For the Lodging Tax, the rate will increase from 7.5% to 8.0%. This half of one percent (0.5%) rate increase is anticipated to generate approximately $215,000 in additional revenue. Also, a new, flat $1 per day charge is proposed, with estimated revenue of $650,000. The revenue generated from this tax will be dedicated to a new Cultural Attractions Fund. In response to the growing financial needs within the arts and museum community for both public and private facilities, this new funding mechanism will be dedicated to community cultural activities beginning in FY 2014. The proceeds from the $1 per diem will be made available through an application process (both City and private agencies will be eligible), with the first $400,000 of revenue committed to the operation of the Virginia Living Museum (VLM). The existing formula used to allocate lodging taxes to the Tourism Fund will be maintained with the exception that percentage incremental change (0.55) will not be included, and the entirety of the new $1 per diem will support the proposed Cultural Attractions fund.

The Amusement Tax is recommended to increase from 7.5% to 10.0%, with an additional $159,000 estimated to come from this change.

The chart below shows the loss of the Real Estate Tax revenue at the current $1.10 rate and new revenue generated by the proposed rate increases.

FY 2014 Proposed Rate and Fee Changes

(in Millions)

Revenue	FY 2013 Adopted	FY 2014 Estimate	Difference Amount
Real Estate Tax @ current Rate	$151.4	$148.5	($2.9)
Real Estate Tax @ proposed Rate	$0	$16.0	$16.0
Lodging Tax Increment	$3.100	$3.965	$865K
Amusement Tax (2.5%rate increase)	$465K	$624K	$159K
Total	**$155.0**	**$169.1**	**$14.1**

Impact

The tax and user fee increases recommended are broad-based, not targeting any one specific segment of citizens. The chart below shows the estimated impact of the rate and fee changes proposed in the FY 2014 Recommended Budget on a typical household. Calculations are based on a household of four with a home assessed at $171,990 (median value estimated for FY 2014). Rate increases in the user-fee funds are driven by Federal and State environmental regulations and mandates, continued decline to demand for water, and increasing operating expenses. A specific review of the user-fee budgets and changes to rates and fees is provided in a separate position paper titled "*User Fee Changes and Impacts*". The estimated impact of all proposed tax, rate, and fee increases equates to $6.08 per week for the typical household.

FY 2014 - Impact on Typical Household	Weekly Increase	Monthly Increase	Annual Increase
Real Estate Tax	$3.23	$13.98	$167.78
Stormwater Fee	0.13	0.55	6.60
Solid Waste Fee	0.50	2.17	26.00
Sewer User Fee	0.53	2.31	27.72
Water Fees and Rates	1.70	7.36	88.26
Total Impact	$6.08	$26.36	$316.36

As the economy continues to show signs of recovery, it is anticipated that real estate values will begin to rebound, making the City's fiscal challenges less onerous. Local taxes should continue to grow modestly, but the effect on the full impact of the Federal sequestration and the broader decline of Federal spending, will no doubt have a dampening effect on any local recovery. While difficult to recommend, these tax and fee increases contribute to the prudent fiscal policies for which the City has garnered positive acknowledgement from the municipal rating agencies. The City's strong ratings are critical to the City's ability to issue municipal bonds at lower interest rates, thereby reducing annual debt service interest expenses. This Recommended Budget maintains the City's hard-earned, well-deserved reputation for strong financial management as we hopefully emerge from the worst economic period since the 1930's. Finally, these recommendations allow the City to continue to make progress on the Strategic Priorities endorsed by City Council.

FY 2014 BUDGET POSITION PAPER

APRIL 2013

USER FEE CHANGES AND IMPACTS

Overview

In the User Fee Funds, expenditure increases are driven by Federal and State environmental mandates, changes to resource consumption, inflation, and escalating costs associated with healthcare and pension benefits. Public Utilities (Waterworks) continues to reduce operating expenses where possible, but these savings do not completely offset the revenue shortfall experienced from continued declines to water consumption. In the Wastewater (sanitary sewer) and Stormwater Funds, rate increases are driven primarily by the impact of the Regional Consent Order and other environmental regulations. These efforts will require substantial investment to research and study the causes of system failure, perform immediate corrective actions, prepare and execute longer-term strategies, and employ staff necessary for implementation. It is important to state that the City has made every effort to reduce costs where possible, increase operational efficiencies, and apply fund reserves, where possible or necessary.

Waterworks (Public Utilities)

Issues

Building on the base established in the FY 2012 and FY 2013 Operating Budgets, key objectives of the Waterworks proposed FY 2014 Budget include:

- "True Up" projections for water demand
- Continue the shift of revenue dependency from consumption based charges to fixed fees
- Adjust fees to allocate cost of service more properly among customer segments
- Eliminate use of reserves to balance the Waterworks operating budget

Water Demand

Consistent with the experience of water utilities across the nation, the Newport News Waterworks faces the continued decline in demand for water. This trend has accelerated in recent years, making budgeting for FY 2014 an even more complex task. The decrease in water demand can be attributed to several factors including Federal regulations that reduce water usage in plumbing fixtures and appliances, growing environmental/water conservation awareness, economic conditions and demand elasticity to rising water costs, economic conditions, climate change and wetter conditions that reduce outdoor water usage.

Waterworks' water demand is the lowest it has been in more than 30 years. In contrast, the customer base has increased from 344,000 to 421,000, or up more than 20%. Water demand for the large industrial users has also declined, as evidenced by the closure of the Giant refinery and Anheuser Busch water efficiency improvements.

Given the downward trend in water consumption, Waterworks has continued to "true up" demand by planning for further decreases and preparing a conservative sales estimate for the coming year. At approximately 34.5 million gallons per day, projected water demand for FY 2013 represents a 22% decline over the last five years. Water sales volume for the upcoming fiscal year is estimated at 33.5 million gallons per day, representing a 3% decrease from the FY 2013 volume. This trend will continue to have a significant impact on projected water sales revenue.

Shift of revenue dependency

In FY 2012, Waterworks began the effort to shift the revenue dependency from volumetric consumption charges to fixed fees in order to reduce revenue sensitivity to changes in demand. This change provides for a more stable revenue stream that better aligns with the operating costs of the utility, that are predominantly fixed and independent of volume of water sales. For further illustration, Waterworks' expenses are roughly 90% fixed and do not vary with water production levels. At the same time, approximately 80% of revenues are derived from volumetric charges that are based on actual water usage. While operational efficiencies will continue to be identified and implemented to reduce costs, the need for fire protection and general system maintenance for installed infrastructure do not allow for significant cost reductions in the short-term. The U.S. Environmental Protection Agency has advised that, in light of the shift in water demand patterns, water utilities need to adjust their rate structures to depend less on volumetric-related fees and more on fixed fees. With the "right-sizing" of projected water demand for FY 2014, the need to adjust fixed service charges is imperative.

Correct the allocation of cost/revenue recovery

Waterworks has analyzed key demand and revenue data and identified the need to adjust the rate/fee structure to more closely align revenue recovery with the cost to deliver service among different categories of customers. Consistent with the downward trend in water consumption, the average demand of a single family residential (SFR) connection, which represents the largest segment of the Waterworks revenue base, has decreased significantly. The average SFR customer now uses 5.5 HCF (HCF = 100 cubic feet of 748 gallons) per month, down from 6.5 HCF just a few years ago. This means that the cost to serve the SFR segment exceeds revenue recovery by a significant amount. Statistics reveal that approximately 51.6% of the Waterworks system operating expense is derived from the cost to provide service to SFR customers, while only 45.5% of revenue collected comes from those same customers. This difference of 6.1% excess cost to revenue recovery represents a subsidy that single family residential customers are receiving from other customer categories. Both the lower average and median demand of SFR customers and the imbalance between the cost to serve the SFR group, and the revenue recovered are addressed in the changes proposed to the rate and fee structure.

Funding Strategy

The Recommended FY 2014 budget for Waterworks is $81.2 million, which is ($200,000) or (0.2%) lower than the FY 2013 budget. FY 2014 represents the third consecutive year of reduction for the Waterworks budget. Waterworks has eliminated 17 positions over the past four years, and has proposed the reduction of 12 additional positions for FY 2014. Based on proposed FY 2014 staffing adjustments, the Waterworks organization will include 353 full-time employees, its lowest staffing level in more than 20 years. Additionally, Waterworks will continue the hiring freeze (approximately 30 equivalent full time positions are being held vacant) through the coming year and will closely monitor vacancies and departmental spending throughout the year prior to filling any positions. Waterworks' Recommended FY 2014 budget includes funding for the proposed 2% salary increase effective July 1, 2014, and increases for retirement and health insurance benefits.

Waterworks proposes the following adjustments to rates and fees for FY 2014:

- **No volumetric rate increase**
  While no changes to water rates are proposed, a reduction to the threshold for R1 Low Usage Lifeline volume is recommended, detailed below.

- **Reduced threshold for R1 Low Usage Lifeline from 6 HCF to 4 HCF**
  Because the median single family residential customer usage is approaching the 6 HCF threshold, that equates to nearly half of all SFR customers receive a subsidized rate for water consumption. This subsidy is an unintended consequence, as the R1 Lifeline rate was designed to provide financial relief for low and fixed-income households consuming minimal amounts of water. This adjustment will more closely align the implementation of the R1 Lifeline rate with its original intention.

- **Increase 5/8" meter service fee from $8.70 to $22 bi-monthly**
  This will bring revenue recovered from the SFR group more in line with cost of service. This change will also increase the percentage of revenue recovered from fixed fees from 20% of revenue to 30% of revenue, and will help buffer revenue recovery from further decreases in customer demand. It will

recapture costs of service related to single family residential customer accounts more effectively.

- **Increase other meter service fees proportionally**
  This aids in corresponding the cost of service to continue the shift of revenue dependency from volumetric rates and maintain correct proportion of meter service fees across all meter sizes.

Recommended rates are:

WATER RATES

Water Consumption Rates per one hundred cubic feet (HCF):

Fee	FY 2013	FY 2014
Single-Family Residential Bimonthly		
R1 Low Usage Lifeline (0 to 4 HCF)	$3.08/HCF	**$3.08/HCF***
R2 Normal Use (Greater than 4 to 50 HCF)	$3.55/HCF	**$3.55/HCF***
R3 Conservation Tier (Greater than 50 HCF)	$7.10/HCF	$7.10/HCF
Industrial Monthly		
I1 Tier 1 (0 to 40,000 HCF)	$3.55/HCF	$3.55/HCF
I2 Tier 2 (Greater than 40,000 HCF)	$3.08/HCF	$3.08/HCF
General (All Other Consumption)		
G - All other usage	$3.55/HCF	$3.55/HCF

Please note, while the Rate per HCF is proposed not to change in FY 2014, the Low Usage Lifeline threshold will change from 6 HCF to 4 HCF

	FY 2013		FY 2014	
Meter Size (Inches)	Monthly Charge	Bi-Monthly Charge	**Monthly Charge**	**Bi-Monthly Charge**
5/8	$6.60	$8.70	**$14.70**	**$22.00**
3/4	$7.90	$10.90	**$17.60**	**$27.90**
1	$10.60	$15.50	**$23.50**	**$39.60**
1 1/2	$26.00	$47.00	**$38.00**	**$69.00**
2	$39.00	$72.00	**$57.00**	**$106.00**
3	$83.00	$160.00	**$122.00**	**$235.00**
4	$120.00	$235.00	**$176.00**	**$345.00**
6	$221.00	$437.00	**$324.00**	**$641.00**
8	$342.00	$679.00	**$502.00**	**$996.00**
10	$480.00	$956.00	**$704.00**	**$1,402.00**

Impact

Based on the changes detailed above and with “average” residential customer consumption remaining at 5.5 HCF per month, the typical household will experience an increase to the cost of water of $7.36 per month, or $88.26 per year. Despite the FY 2014 rate/fee increases proposed, daily cost of water service will remain below $1 per day for the average single family residential. Waterworks will remain one of the lower cost water utilities in Southeastern Virginia and compare favorably to most water utilities in the region, state, and nation.

Due to the ongoing decline to water demand and recent budgetary constraints, Waterworks has been forced to use reserve funds to balance the budget the last several years. The rate structure, associated fee increases, and expenditure reductions recommended for FY 2014 position Waterworks to address the challenges discussed above and avoid the use of reserve funds. The continued practice of regular, modest incremental increases and preservation or enhancement of cash reserves are identified by the financial bond rating agencies as key to long-term sustainability of an effective municipal water utility. These efforts, combined with the track record of effective management, have enabled Waterworks to maintain its "AAA" (Standard & Poor's Ratings Services) on its revenue bonds ("AAA" is Standard and Poor's highest rating, indicating "extremely strong capacity to meet financial commitments").

Waterworks remains committed to meeting all regulatory requirements and the provision of an adequate supply of high quality drinking water. The operating budget proposed for Waterworks allows the organization to continue its responsible stewardship of environmental resources and to continue to deliver exceptional customer service.

Solid Waste Fund

Issues

Beyond the basic functions of residential and bulk waste collection, and recycling activities, the Solid Waste operation plays an integral role in the City's Strategic Priority Community Maintenance effort, and the Hazardous Waste program. Delinquency rates and non-payment of fees continue to be significant problems affecting revenue for this Fund.

Funding Strategy

Total expenses in the Solid Waste Fund reflect an increase of $307,100 for FY 2014, which is 2.3% more than FY 2013. This increase is attributed to continued requirements to properly fund retirement, the proposed salary increase, and health care costs, and increasing cost of contractual obligations. Two positions (both Dispatchers, Administrative Assistants) are recommended to be transferred from the General Fund to perform duties associated with Solid Waste operations. One new Staff Technician position will allow for better oversight of bulk and solid waste customer violations as part of the City's Community Maintenance Strategic Priority effort.

The proposed increase of 50 cents per week will raise the fee for a 90-gallon container from $5.75 to $6.25 per week. A focused effort will be made in the upcoming fiscal year to examine methods of minimizing delinquency rates and non-payment of fees. No change in service is proposed for FY 2014.

Impact

The Solid Waste fund increase will provide funding necessary to maintain the current level of service. The average household with one 90-gallon container will experience an additional cost of $26.00 per year.

Wastewater Fund

Issues

In past years, the Sewer User Fee has been based on operational costs, including capital project debt service and regulatory impacts. More recently, it has become necessary to recommend rate adjustments that account for the impact of regulatory guidelines set forth in the City's Special Order by Consent (SOC) with the Department of Environmental Quality (DEQ). The next phase of the SOC requires development of a Rehabilitation Plan for system repairs, upgrades and rehabilitation following the affordability clause of the SOC. The initial estimate for rehabilitation plan costs is $240 million over the next twenty years.

Historically, the DEQ has suggested that a sewer system is "affordable" if the annual cost to operate repair and maintain the sewer system does not exceed 1.25% of the locality's Median Household Income. The determination of how much a jurisdiction must invest in the sewer system is known as the Affordability Index (AI). In Hampton Roads, the AI includes costs charged by Hampton Roads Sanitation District (HRSD, a political subdivision of the State). The DEQ has recently indicated that it will set the floor of the AI at 1.5%. It is currently projected that the City's costs will exceed the limits of the AI. This means that the City will be required to set sewer rates at the limit of affordability and complete whatever projects can be accomplished within that limit.

Based on a DEQ required investment of 1.5% of MHI, a rate increase of more than 60% from the current average annual rate of $218 per household to an average annual rate of $352 per household will be required. The combined City and HRSD rate (a rate to be set by HRSD, and not by the City) would increase from $477 (estimated for FY 2013) per year to $764.

The proposed rate increase for the Wastewater Fund is driven primarily by the impact of the Consent Order. As detailed in the recent presentation to City Council, the City's requirement to reduce or eliminate sanitary sewer overflows will require prompt studies and investment in system improvements. As these mandates affect all localities in Hampton Roads, consideration is being given to creating a regional wastewater organization that would take over the management and operations of wastewater processes. This review is massive and complex. For this reason, some of the rehabilitation work has been slowed until a decision on regionalization is made. However, this study does not relieve the City of immediate obligations, nor does it remove the long-term and very costly proposition, regardless of the results of this study.

Funding Strategy

The Recommended FY 2014 budget for the Wastewater Fund is $18.7 million, which is ($161,000) or (0.9%) lower than the FY 2013 budget. The fund decrease can be attributed to the reduction to the Wastewater general capital improvement plan resulting from the slowing of efforts while regionalization is studied (the FY 2013 operating budget included one-time operating equipment purchases, supported by the use of reserve funds that will not be duplicated in the upcoming fiscal year). The establishment of one new position (Instrumentation and Control Specialist) will be added to meet demands of TELOG project related to Special Order of Consent. Two positions (both Dispatchers/Administrative Assistants) are recommended to be transferred from the General Fund to perform duties associated with work directly related to Wastewater operations. Other increases include the proposed 2% salary increase, and health insurance and pension adjustments. The Sewer User Fee proposed for FY 2014 is $3.21 per hundred cubic feet (HCF) of water consumption. This is a 15 percent increase over the existing rate of $2.79 per HCF. The average increase per household is estimated to be $2.31 per month or $27.72 per year.

This will be the second incremental increase required to achieve the required investment of 1.5% MHI.

Impact

The Sewer User Fee increase will provide the funding necessary to continue to respond in appropriate fashion to the increasing regulatory requirements being established by the DEQ. The average increase per household is estimated to be $2.31 per month or $27.72 per year.

Stormwater Fund

Issues

The Environmental Protection Agency (EPA) is exerting significant pressure on Virginia and other Chesapeake Bay watershed States to convert to more stringent and direct measures of discharged pollutants. These changes are embodied in two major components of the Stormwater Management Program:

- The Municipal Separate Storm Sewer System (MS4) permit
- Chesapeake Bay Preservation Act Total Maximum Daily Loads (TMDL)

MS4 Permit
The MS4 is the overall permit issued to Newport News by the State under EPA guidance for stormwater management. The last permit expired in 2006. Since 2006, the City has been operating on annual extensions, largely because the region and State objected to proposed EPA requirements. The issuance of a new MS4 permit is expected to occur by summer 2014. The City has reviewed the draft permit for Fairfax County, VA and the recently-issued permit for Washington, D.C. As a result, it is anticipated that many of the provisions contained within these permits, including increased monitoring, inspection, record keeping, and enforcement will be typical for the permits issued to the Hampton Roads localities. These additional provisions will create increased costs of operation to the City.

Total Maximum Daily Load (TMDL)
The Chesapeake Bay Preservation Act calls for increasing regulation of nutrients and sediment. EPA's approach is a "Bay Diet" prescribing limits on nutrients (phosphorous and nitrogen) and sediment. These limits are defined as Total Maximum Daily Loads (TMDL). The State and EPA were at odds over this approach for several years, but reached a consensus agreement in December 2010. TMDL agreements will eventually become part of MS4 permits and related regulations. The effort is multi-leveled. By working with the industry, the region, lobbyists, and the City Attorney, the intention is to minimize these impacts to the extent practicable. As with the MS4 requirements, the additional TMDL provisions will represent an increased cost of operations to the City.

Funding Strategy

The recommended FY 2014 budget for the Stormwater Fund is $14.4 million, which is $1.5 million or 11.3% more than the FY 2013 budget. The Departments of Engineering and Public Works have joint operations for the Stormwater Management Fund. The FY 2014 recommended Stormwater User Fee is $8.00/ERU, which is a $0.55 per month increase over the current rate of $7.45/ERU. The average household cost will increase by $6.60 per year to $96.00.

The FY 2014 budget presents the best estimate of the necessary expenses to address the increased tracking and monitoring required by the anticipated MS4 permit including TMDL. Four positions (Environmental Specialist, Site and Subdivision Technician, Senior Equipment Operator, and Senior Inflow and Infiltration Technician) are recommended to be added to perform required MS4 and TMDL work. Other increases include the proposed 2% salary increase, and health insurance and pension adjustments. The City will continue to evaluate existing and proposed operations to identify opportunities for cost control.

Impact

The Stormwater User Fee increase will provide the necessary funding to respond to the increasing regulatory requirements anticipated with the new draft MS4 permit. For the average household, there will be an increased cost of $6.60 annually.

CONCLUSION

The chart below shows the potential impact on a typical homeowner of the proposed rate and fee changes that the FY 2014 Recommended Budget contains. Calculations have been based on a household of four with a home assessed at $171,900 (projected median for FY 2014). The estimated impact of all proposed tax, rate, and fee increases equates to $6.08 per week for the typical household.

FY 2014 - Impact on Typical Household	*Weekly Increase*	*Monthly Increase*	*Annual Increase*
Real Estate Tax	$3.23	$13.98	$167.78
Stormwater Fee	0.13	0.55	6.60
Solid Waste Fee	0.50	2.17	26.00
Sewer User Fee	0.53	2.31	27.72
Water Fees and Rates	1.70	7.36	88.26
Total Impact	**$6.08**	**$26.36**	**$316.36**

FY 2014 BUDGET POSITION PAPER

APRIL 2013

NEW INITIATIVES / PROGRAM CHANGES

Overview

In the early development of the FY 2014 Recommended Budget, it was clear that the City would be faced again with substantial loss in its largest revenue source, Real Estate Taxes. Challenged with declining revenue, and yet having the responsibility of fully funding operations in the upcoming fiscal year, it was necessary to make expenditure reductions. On the cost control side of the budget, most of the successful strategies deployed in recent budgets such as hiring lag, position elimination, overhead trimming, and short-term reductions, are no longer available options for further cutting. While program reductions were necessary to fit within the smaller revenue picture, there are limited program enhancements.

Balanced with specific reductions, the FY 2014 Recommended Budget provides funding for the new priorities of the City while attempting to maintain the same level of services and programs currently provided to citizens. The Recommended Budget also contains some organizational and operational changes expected to result in greater efficiencies and cost reductions, and a net reduction of eighteen General Fund positions.

New Initiatives

There is limited funding in the FY 2014 Recommended Budget for new priorities and initiatives. Any such programs are either contractual in nature, mandated, or to complete major projects that were begun in the current fiscal year. In addition, there is new funding for the City's Strategic Priorities and certain other targeted activities. The Peninsula Regional Animal Shelter currently under construction and a full year operations of the City's new 311 Customer Contact Center are examples of funding for contractual or major project funding. In addition, the FY 2014 Recommended Budget also begins to partially restore some of the funding reduced for in recent budgets for residential street repairs, vehicle replacement, and new technologies, in order to avoid a more costly expense in the future.

Peninsula Regional Animal Shelter

Beginning in FY 2014, the City and surrounding localities will no longer use the SPCA facility for animal sheltering services. This required the City and surrounding localities to find an alternative solution, which led to the creation of the agreement to build and operate the Peninsula Regional Animal Shelter. Currently, a new 29,000+ square-foot building is being constructed near the intersection of Jefferson Avenue and Briarfield Road in Newport News. Each of the participating localities will pay a prorated share of the operating expenses, debt service, land rent, and capital reserve, with the shares divided as Newport News 47.21%, Hampton 35.83%, York County 13.77%, and Poquoson 3.19%.

Based on the construction completion date, the FY 2014 Recommended Budget plans on operating costs to open and run the animal shelter for a maximum of eleven (11) months, including salaries for eleven (11) new positions. As construction plans are often based on weather and other mitigating factors, the actual hiring of staff and opening of the facility will shift as better information on a completion date is determined. Potential revenue from adoption fees, spay/neuter charges, and micro-chipping will go to offset the localities' costs for operations and debt service. The City's prorated portion of the new Peninsula Regional Animal Shelter operating costs is $395,872, with the City's share of debt service at $300,199, for a combined cost of $696,071.

Under the expiring contract with the SPCA, the City pays $473,998, with a separate contract for veterinary services of $36,380. While the new facility is under construction the City will continue to use the SPCA sheltering facilities on a month-to-month basis, at the current rate, to allow for flexibility in the opening of the new Regional Shelter. Under the less favorable scenario of the new facility being delayed opening by six (6) months, the City would still not spend $236,999 for the remainder of FY 2014 on the SPCA contract that offsets the cost of the new facility operations.

311 Customer Contact Center

The goal of the 311 Customer Contact Center is to provide citizens with one number they can call to access city services and information. The Center will provide seamless and customer friendly service with all the callers' history and information in one location. This will allow the City to track trends or issues, to coordinate interdepartmental responses, and to measure the City's performance as it relates to service delivery. In addition, the 311 Customer Contact Center will be the public's point of contact during emergencies.

Planning for a 311 Customer Contact Center began several years ago, with initial funding in FY 2012 with one position. The amount of $332,508 was included in the FY 2013 Budget for this operation including funding for six full-time positions and part-time staff. Full functioning of the 311 Customer Contact Center is anticipated to begin in late FY 2013. Funding in FY 2014 is proposed at $455,356 that includes ten (10) full-time positions (One Communications Manager, One Communications Supervisor, one Configuration Analyst position, and seven Customer Service Assistants, two of these positions being new allotments and partially funded in FY 2014), as well as part-time staff. The remaining funds will be used for overall operating expenses such as Contractual Services, Telecommunications, and Supplies.

Strategic Priorities of the City

The City's five Strategic Priorities are: Economic Development and Redevelopment, Environmentally Sustainable Local Government Policies, Community Renewal and Maintenance, Fiscal Management and Efficient Operations, and Maximum Emphasis on Public Safety. Beginning in FY 2014, a new component will be created in the City's General Fund to provide specific and additional funding for the Strategic Priorities of the City. This funding will be found in a new cost center of the General Fund Nondepartmental division.

In FY 2014, a total of $1.902 million is recommended to fund programs for the following Strategic Priorities:

Public Safety - Youth & Gang Violence Initiative ($1.1 million)

To combat the growing problem of youth and gang violence, the budget recommends funding of $1.1 million to be earmarked for its Youth and Gang Violence effort (for additional information, see *"Youth and Gang Violence Reduction"* Position Paper).

Economic Development & Redevelopment - Cultural Attractions Fund ($650,000)

In recent years, the City's public and private museums and cultural activities have been facing an increased need for additional capital and operating support. In response to this, a new Cultural Attractions Fund will be established. The new fund will be supported by a proposed new $1 per day flat change as part of the City's Lodging Tax. This flat tax is expected to generate an additional $650,000. With the first $400,000 dedicated to operations of the Virginia Living Museum (VLM), both City and private cultural entities that may be in need of operating or capital support may then compete for those funds through an application process.

Community Renewal & Maintenance – Grass Cutting and Litter ($152,500)

Additional funding is recommended for grass and weeding cutting of vacant and City-owned lots, litter control in targeted areas, and other visually critical projects. This amount also includes money for three (3) new areas of landscaping (Grissom Municipal Annex, Denbigh Community Center, and the sound wall at Jefferson Avenue).

Restoration of Funding – Critical Areas
In order to avoid a real estate tax rate increase or use of General Fund Reserves as a revenue replacement mechanism during this prolonged recession, the City has curtailed funding for many fundamental operations. Among these have been essential functions of residential street paving and repairs, replacement of vehicles and heavy operating equipment, and remaining current in basic information technology equipment. The City is at the point that these areas can no longer be underfunded as it will be more costly in the future to replace or reinstate these necessities. Accordingly, the FY 2014 Recommended Budget partially restores funding in these three (3) critical areas.

Since 2008, street repairs and paving have been reduced by $2.4 million. The FY 2014 budget provides an additional $1.5 million, increasing the recommended funding level to $4.3 million that will better maintain City residential streets. The City has a current vehicle and heavy equipment fleet of over 1,500 items, with a replacement value of $87 million. Vehicle replacement funding is recommended to increase in the General Fund from $750,000 to $1 million, which remains still short of the $3.2 million required to adequately maintain the fleet in the upcoming fiscal year alone. Funding for routine replacement of computers, servers, controllers, and software purchases through the City's Information Technology Investment Fund is recommended to grow by $950,000, from $500,000 to $1.45 million. In total, $2.7 million is recommended to be restored to these areas to ensure that the City's infrastructure, vehicles, and essential information technology do not continue to deteriorate into a state were even more financial resources will be required to maintain functionality.

Service Impacts

To avoid cutting core services due to the loss of $20 million in real estate tax revenue since FY 2010, the City has reduced the number of positions, consolidated efforts where possible, leveraged technology, and increased some fees and taxes. Facing a fourth consecutive year revenue loss, the operating departments were asked to reduce costs by five percent and find ways to work more efficiently without reducing the level of service provided to the citizens, if possible. However, to reach this level of reductions noticeable and unacceptable service cuts would have been recommended in this budget. In an effort to lessen the level of the Real Estate Tax rate increase, there are some areas that will experience reductions in service levels. These actions coincide with City Council's Strategic Priority of *Fiscal Management and Efficiency of Operations*. As a result, operating changes and cost savings were identified and are incorporated into the FY 2014 Recommended Budget. Some of the more significant proposed items are:

- It is recommended that the City-maintained public pools be consolidated and Magruder Pool be closed. This facility is a badly aging pool that continues to leak water, which most likely has lead to the deteriorating piping and under-pool ground erosion, possibly resulting in causing other structural damage. There would have to be a major capital investment now in order to open and continue to operate. In addition, the Magruder Pool location is in part the site for the new Magruder Elementary School. With the Doris Miller pool less than one mile away, this facility's operations will increase to seven (7) days per week and hours opened from 40 to 55 hours per week. To compensate for the closing of the Magruder pool, the Doris Miller pool budgets would increase by $34,698 to accommodate more staff and operations (e.g., chemicals) in order to extend the hours. The net savings of closing Magruder pool is $30,527 in addition to the current year savings in the spring start-up (repairs and renovations) costs needed to make that facility pass the annual Health Department inspection. By making the decision to close Magruder pool now, new maintenance expenses are avoided as well as in advancing the construction of the important new school.

- In the Parks, Recreation and Tourism Department, one additional service reduction will be the elimination of one (1) full-time Marketing Coordinator position ($62,230) in the Historical Services Fund. The position is the coordinator of Historical Services website, social media, and three (3) gift shops. The proposed elimination will cause these responsibilities to be reassigned to other staff members. While the position is in the Historical Services Fund, the reduction would come from the Nondepartmental annual contribution to that Fund.

- The Police and Central Warehouse functions will be consolidated during FY 2014. A plan will be formulated to determine the proper staffing, stocking, and inventory levels for this combined operation. This is expected to result in the elimination of two full time positions and save $100,000 annually.

- The City's Print Shop will be scaled down to provide for a more limited operation consisting of only basic, routine, and highly confidential products. All other print jobs will be contracted out to vendors. This is expected to eliminate two full time positions, reduce operating costs, and save $96,000.

- The West Avenue Library Branch will be repurposed in preparation for renovations at the Grissom Branch. This Branch has experienced a declining circulation and has been operating with reduced service hours since FY 2011. It is currently open on Mondays, Wednesdays, and Fridays. It is within two miles of the Pearl Bailey Branch and within five miles of the Main Street Branch. The West Avenue Library Branch has slightly more than 4,500 registered patrons, of which 56% are Newport News residents, and 30% of the registered patrons use this branch exclusively.

The best use of the space is to relocate the Technical Services (the library materials acquisition and cataloging functions) staff from the lower level of the Grissom Library Branch. In the future, the Grissom Branch is anticipating a renovation/maintenance of the existing space. In anticipation of this, moving the Technical Services function to the closed the West Avenue Library Branch allows for the best program flexibility within the Grissom Library Branch during renovation, as well as keeping the West Avenue Branch building maintained with daily operational use. This closure will result in the elimination of two (2) full-time positions, a Supervising Librarian A position, a Senior Information Services Specialist position, as well as various operating expenses. The Part-Time staff will be shifted to the Pearl Bailey Branch to absorb any additional service demands at that location. The library collection will be moved to the South Morrison outreach facility. The building itself is historical and needs to be maintained, including the Christopher Newport mural contained in the facility. As part of the West Avenue Branch closure, a book drop will be maintained at the site, to allow patrons to return books at the facility. The closure is expected to save $133,603.

- To assist the City in meeting its Workforce Development goals and to enhance efficiencies, a decision was made to centralize the existing Libraries Computer Lab training staff of three positions from the individual branch to one location, the South Morrison facility. This will result in the elimination of one full time position with $54,250 in savings. This consolidation is not expected to reduce any of the services or classes currently being offered at the branches, but does allow for a more efficient and centralized coordination of services by remaining staff members.

- The Fire Department will create a pool of part-time medical providers to staff medical transport units during peak hours to provide a savings by reducing the amount of overtime used by the full-time EMS and first responders by $90,040. This also enables the full-time EMS/first responders to fill other personnel shortages that may exist in daily staffing.

- The Fire Department will reclassify three (3) Firefighter/ Medic positions to three (3) Staff Lieutenant's positions to provide savings in the overtime staffing costs of $36,644). This will also expand the pool of candidates for promotions, and give the added flexibility to adjust schedules and assign Officers to assist with other administrative tasks.

- The Public Works Department will engage an energy audit firm to attempt to find $150,000 in annual energy savings City-wide.

- A total of twenty-four (24) positions in total have recommended to be eliminated from the General Fund budget. The number of actual recommended reduction-in-force positions is eight (8) full-time employees and thirteen (13) vacant positions. Three (3) positions will be transferred to other operating funds. Six (6) new positions have been added, with three (3) needed for staffing the 311 Customer Contact Center, two (2) in Juvenile Services, and one (1) Youth and Gang Coordinator.

FY 2014 BUDGET POSITION PAPER

APRIL 2013

YOUTH AND GANG VIOLENCE REDUCTION

Overview

Since 2006, the City of Newport News has worked to find ways to prevent youth violence. An extensive study completed in 2012 by the Mayor's Task Force on Teenage and Young Adult Violence Reduction made several recommendations to reduce violence in Newport News. Additionally, strategies that are considered by the Office of Juvenile Justice and Delinquency Prevention to be best practices have been endorsed by City Council. The City Council has requested that the City Manager move forward to implement those strategies that will be most effective to prevent and reduce youth violence in the community. In order to proceed with implementation, it is important to determine what level of support is appropriate for the components of the violence reduction initiative.

Issue

While overall violent crime in Newport News has decreased, calls-for-service alleging gun fire continues to increase and the annual number of homicides continues to be high. Police Department calls-for-service alleging gun fire have increased from 1,608 in 2009, to 1,638 in 2010, 1,853 in 2011, and 1,987 in 2012. In 2012 the City recorded 20 homicides; in 2011, fifteen; in 2010 twenty-three homicides; in 2009, twenty-four; in 2008, seventeen; and in 2007 twenty-eight. Many of these cases involved youth or young adults, either as perpetrator or victim. Youth violence and victimization is not a new issue and is not exclusively an issue in Newport News. According to the National Gang Threat Assessment, neighborhood-based street gangs continue to account for the largest number of gangs nationwide and commit as much as 80 percent of the crime in many communities. The Newport News Police Department reports that the number of identified gangs has risen from 188 in 2010 to 318 in 2012.

In the City of Newport News there are a number of departments, agencies, initiatives, and programs that share the goal of reducing community violence. However, research has shown that in order for communities to be successful in reducing youth and gang violence, a comprehensive plan based on best practices must be adopted and implemented. In order to develop a plan, in September 2010 the City Council of Newport News resolved to establish the Mayor's Task Force on Teenage and Young Adult Violence. The work of the Task Force was to build upon efforts initiated in 2006,

OJJDP's Comprehensive Gang Model

when a series of community meetings with religious, civic and business leaders in the community led to the consensus that some neighborhoods felt a sense of hopelessness and lack of control over crime and delinquency. The result of these efforts has been to identify and recommend the use of the best practices model developed by the Federal Office of Juvenile Justice and Delinquency Prevention (OJJDP).

OJJDP has done extensive research on the topic of Youth and Gang Violence. This research has created a substantial body of information about evidence-based practices that offers the best and most promising strategies for curbing violence. OJJDP's Comprehensive Gang Prevention and Intervention Model[1] is based on nationwide research and has been repeatedly proven to be effective in violence reduction. The model includes five strategies for effectively combating gangs:

1. Community Mobilization - Involve local citizens, community groups, and agencies in violence reduction and coordinate programs and staff functions within and across agencies.

2. Organization change and development - Develop and implement policies and procedures that result in the most effective use of available and potential resources, within and across agencies, to better address the gang problem.

[1]Spergel, 1995, pp. 171–296. 2 • Best Practices To Address Community Gang Problems: OJJDP's Comprehensive Gang Model Development of the Comprehensive Community-Wide Gang Program Model.

3. Social intervention - Involve youth-serving agencies such as schools, faith-based organizations, police, and other juvenile justice organizations in "reaching out" to gang-involved youth and their families, and linking them with the conventional world and needed services.

4. Suppression - Implement formal and informal social control procedures, including close supervision and monitoring of gang-involved youth by agencies of the juvenile justice system and also by community-based agencies, schools, and grassroots groups.

5. Provide opportunities - Develop a variety of specific education, training, and employment programs targeting gang-involved youth.

The violence reduction initiative that the City Manager is recommending is designed in accordance with the OJJDP model.

Community Mobilization
A civilian Violence Prevention Coordinator position is proposed for FY 2014 in the Newport News Police Department (NNPD) to oversee and coordinate the efforts of a city-wide gang and youth violence reduction initiative. The Coordinator will be responsible for agency collaboration, program evaluation, and coordination of gang and youth violence related functions. The Coordinator will receive routine supervision from NNPD and report to a Steering Committee. Additionally, the Coordinator will collaborate with a Work Group to develop action plans to implement programs and activities and provide City Council, through the City Manager, with regular progress reports and briefings. To enhance effectiveness, the Coordinator will be housed in a neighborhood-based facility to maximize outreach to the community.

As the lead agency in the gang and youth violence reduction initiative, NNPD will be responsible for providing an administrative framework to facilitate the work of the Coordinator, Steering Committee, and the Work Group. The capacity to support and sustain the gang and youth violence reduction initiative was an important factor in selecting NNPD as the lead agency. Several important considerations to support the initiative include providing a secure location to house information and plans, tracking the activities of partnering agencies, coordinating the activities and meetings of the Steering Committee and Work Group, and administering funds and potential grant agreements. The advantages of NNPD serving as the Lead Agency are (1) procedures for collecting and reporting gang and crime data; (2) access to regular crime updates, reports and criminal analysis; and (3) access to financial and management support.

A Steering Committee is recommended to set the tone for cooperation and to advocate a shared vision for the gang and youth violence reduction initiative. Moreover, the

Committee provides "authority" to ensure the means and mechanisms are in place to accomplish stated objectives. The primary purpose(s) of the Steering Committee will be to:

- Assist in identifying "best practice" programs and activities that will address specific gang and youth violence related problems, with a particular emphasis on prevention, intervention, and suppression programs;
- Assist in identifying state and local laws that should be enacted or amended to enable the City to better address problems and issues arising from or related to gang and youth violence; and
- Assist with engaging the community on the issue of youth and gang violence.

The Steering Committee will be appointed by the City Manager with some opportunity for rotation among community positions. The "non-partisan" membership shall include but is not limited to the Commonwealth's Attorney, the Sheriff, the Superintendent of Public Schools or designee, the City Manager or designee, the Police Chief, the Director of Court Services, the Director of Human Services, the Director of Juvenile Services, the Director of the Hampton-Newport News Community Services Board, one (1) representative from the Virginia Peninsula Chamber of Commerce, one (1) at-large representative from the faith community, and one (1) at-large representative from the community.

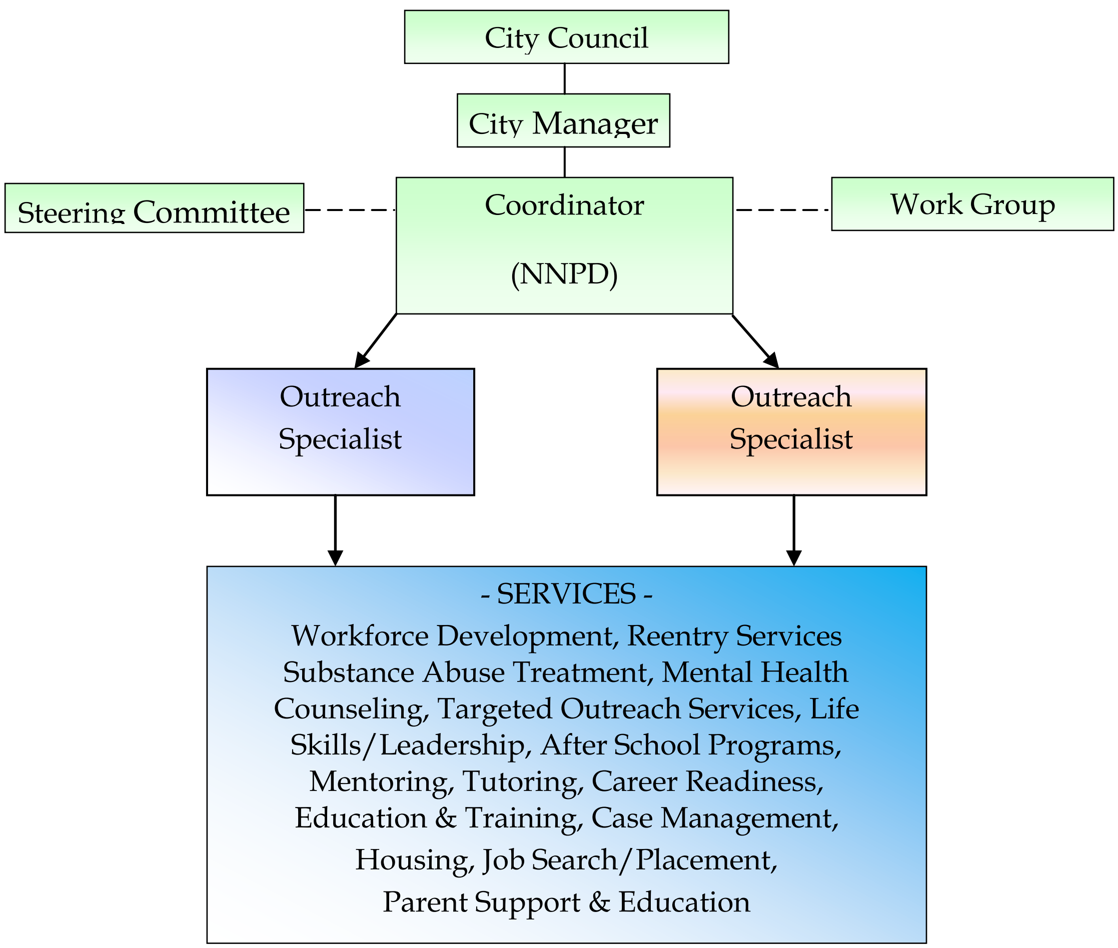
Organizational Change and Development
A Work Group is recommended to ensure the coordination of all gang and youth violence suppression, prevention and intervention activities taking place in the City. Although the Work Group may take a proactive role in addressing the issue, the primary purpose(s) of the Work Group will be to:

- Assist with the consolidation and development of Steering Committee gang and youth violence recommendations; and
- Assist with the clarification of issues, formulation of strategies, and development of specific gang and youth violence action plans for implementation.

It is recommended that City Council abolish "Keeping our Kids Safe: The Violence Prevention Network" (KOKS) by rescinding the existing resolution and allowing the City Manager to appoint members to the Work Group. KOKS was focused primarily on prevention strategies for school age children. The Work Group membership shall include representatives from agencies and organizations who represent the array of gang and youth violence suppression, prevention and intervention agencies in the City. The Violence Prevention Coordinator will staff the Work Group.

Social Intervention
The City Manager recommends adding two Outreach Workers to this initiative. The inclusion of Outreach Workers in a comprehensive violence reduction strategy is considered a best practice. Outreach Workers provide an important bridge between the Community, gang-involved youth and young adults, and the agencies that respond to the problems of delinquency and gangs. Often referred to as "the boots on the ground", these individuals have a front-line role in the community to engage youth, young adults, and their families and to link them to services. Given the somewhat differing needs of youth versus young adults, the City Manager recommends the inclusion of two positions, one to focus on each group. A menu of services will be available to assist youth and young adults. Funds will be used to provide services including, but not limited to: substance abuse and therapeutic counseling, targeted outreach, life skills, mentoring, tutoring, and parent support and education.

NN Violence Reduction Initiative



Supression
It is recommended that additional funding be dedicated to support law enforcement and criminal justice efforts. Law Enforcement Initiatives such as the Intelligence-Led Community Policing and Community Prosecution (IL3CP) and the Drug Market Intervention (DMI) program have been successful in our community and should be expanded. The IL3CP initiative involves the entire local criminal justice system by bringing prosecutors, law enforcement and community partners together to analyze problems and formulate solutions that will make the community safer. The DMI program is a strategic, focused initiative designed to eliminate drug markets and thereby reduce crime and violence in specific neighborhoods. DMI programs use deterrence-based interventions and police-community collaboration to re-assert community control of the neighborhood.

Provide Opportunities
Workforce Development is considered a valuable tool in combating crime. Individuals who have stable employment and can adequately support themselves financially are less likely to offend or reoffend. However, the world of work presents many challenges both for those at-risk of involvement in the criminal justice system and for those returning to the community from jail or prison. In both instances, barriers to employment may include a lack of necessary education, training or skills. In some cases, the additional burden of a criminal record also limits job prospects. It is strongly recommended that a portion of this budget be earmarked for a comprehensive Workforce Development program. A comprehensive program should include education, skill training, career readiness, and placement services.

The City Manager recommends that a portion of the recommended funding be dedicated to support reentry services. Both adult and juvenile offenders have significant reentry needs that may include education, training, employment, mental health services, substance abuse counseling, housing, and social services. Offenders returning to the community confront a range of issues that make it likely that they will recidivate and be re-incarcerated. Research has proven that transition planning, access to educational and vocational programs, housing assistance, substance abuse and mental health treatment, and life skills training can significantly reduce recidivism. Providing a range of reentry services will ensure the safety of the community and reduction of serious and violent crime by preparing targeted offenders to successfully return to the community.

Funding Strategy

The City Manager recommends a total Program Budget of $ 1,100,000 in FY 2014 be dedicated to the Violence Reduction Initiative. As the new City Manager and Coordinator grow the initiative in future years, the budget can be adjusted accordingly. The chart below outlines the recommended distribution of these funds. The City Manager's Office will maintain financial control of the budget and authorize the expenditure of funds.

Newport News Violence Reduction Initiative Proposed Budget		
Strategy	**Description**	**Suggested Funding**
Community Mobilization	Creation of an Executive Board, Work Group, Education, Outreach, and Media	$ 30,000
Organization Change and Development	Coordination of agencies and services, design and implementation of policy, maximization of resources, program evaluation	$ 35,000
Social Intervention	Partnerships with youth-serving agencies, outreach workers, treatment and counseling services, life skills	$ 327,000
Suppression	Community policing, enhanced prosecution, supervision and monitoring, case management	$ 263,000
Provide Opportunities	Workforce development, tutoring, mentoring, re-entry services, participant activities	$ 445,000
	Total Recommended Funding	$ 1,100,000

FY 2014 BUDGET POSITION PAPER

APRIL 2013

SHARED LOCAL SERVICES

Issue

Due to the down turn in the economy during the last five years,, the City's fiscal health has been a point of particular concern. Operating departments have made significant reductions to expenditures and eliminated positions to meet budgetary constraints. The efforts have increased the difficulty of maintaining the high quality of the services provided to the community. There are a number of services that are duplicated in each municipality, requiring costly capital investment and infrastructure development along with the necessary human assets needed to accomplish service goals.

The State provides localities the flexibility to "share" services through formal agreements adopted by the elected bodies or through contractual attachment as seen when the Purchasing Department exercises cooperative clauses found in existing municipal contracts. Purchasing cooperatives for commonly used commodities can also be leveraged to streamline the acquisition of materials and equipment, or contract of professional services at reduced or pre-negotiated costs.

City staff has a demonstrated history of leveraging resources and opportunities with our jurisdictional neighbors to the betterment of each community. Some of those initiatives are relatively new or currently in development. This Position Paper will discuss the most prominent initiatives to include:

- Animal Services
- Regional sewer consolidation, and
- Fire/Emergency Medical Services shared services.

While it is not specifically detailed in this Paper, as part of the FY 2015 budget, the City has committed to working with Newport News Public Schools to conduct an analysis to determine if there is any benefit to sharing health insurance services for coverage of City and School Division employees.

Joint Construction and Operation of a Regional Animal Shelter Facility

Overview

The Peninsula SPCA advised the participating localities including Newport News, Hampton, Poquoson, and York County that it would no longer provide animal shelter services after June 30, 2013. Localities are mandated by State law to provide these services to our citizens, which required the City to develop other animal sheltering options. In keeping with the philosophy to explore opportunities for shared service delivery, the City had discussions with the other localities to study the potential for jointly constructing and operating a shared regional facility. After reviewing the options, it was determined that one regional animal shelter would be more cost effective than each locality expending the additional resources to build and operate separate facilities.

As a result of this collaboration, a new 29,000+ square foot animal shelter is being built in Newport News. The cost of the construction of the facility is to be borne by the participating localities at a percentage that is based on their respective population.

Once the shelter is operational the localities will continue to look for opportunities to reduce costs and improve efficiencies through the shared services approach. It is anticipated that further consideration will be given to a more regional approach to the animal control function where feasible.

Based on the construction completion date, operating costs to open and run the animal shelter for 11 months, including salaries, land rent, capital reserve, and certain other costs will be prorated to the participating localities. The localities' shares of operations are Newport News 47.21%, Hampton 35.86%, Poquoson 3.19%, and York County 13.77%.

Potential revenue from adoption fees, spay/neuter charges, and micro-chipping will go to offset the localities' costs for operations and debt service. The City's total prorated cost associated with the new Peninsula Regional Animal Shelter is $696,071, allocated between operating costs of $395,872 and with the City's share of debt service of $300,199. While the new facility is under construction, the City will continue to use the SPCA sheltering facilities on a month-to-month basis. Included in the proposed FY 2014 budget is an anticipated six months of payments to the SPCA at the current rate to allow for flexibility in the opening of the new Regional Shelter. This represents ($236,999) in savings for the remainder of FY 2014 that offsets the cost of the new facility operations.

Regional Sewer Consolidation

Overview

One of the major shared services initiatives in the region is the possible consolidation of the regional sanitary sewer systems. Currently, the Hampton Roads Sanitation District (HRSD) owns and operates the regional wastewater treatment plants and several dozen large sewage pumping stations and pipelines that carry sewage to the plants. The individual municipalities own and operate local sewer collection systems including the typical gravity mains and manholes, as well as hundreds of smaller sewage pumping stations. Since 2007, the region has been working together to limit sewage overflows under a Special Order by Consent (SOC) signed by the municipalities, HRSD and the Virginia Department of Environmental Quality (DEQ). The United States Environmental Protection Agency (EPA) is an involved party through a separate agreement with DEQ and HRSD.

Limiting the sewage overflows is a complex and expensive undertaking that involves the relationship between how much sewage the system can collect, transfer and treat versus how much sewage enters the system. Because the majority of the sewer system pipes flow by gravity at less-than-full conditions, a leaky system will allow water to enter the sewer system. This is a particular problem in conditions of heavy rain, in areas where the water table is high enough to influence the sewer pipes, where flooding occurs, where much of the water that enters the sewer system is not sewage but rainfall, groundwater, or floodwater. This water becomes sewage by contact and must be treated as sewage. These high flows can exceed the capacity for collection, transmission and treatment, and may then leak out of the system creating overflows. Accordingly, the plans for limiting overflows include both Rehabilitation (repairing locations where excess water enters the system) and Wet Weather Management (providing enough capacity in pipes, pumps, and treatment plants to handle the flows received).

In developing plans for how to define and allocate the work needed to limit overflows, it has become clear that municipalities have differing levels of investment in installed infrastructure and maintenance, philosophies on how to address the Consent Order issues, and amounts of available financial resources. One approach for resolving some of these concerns is regionalizing the entirety of the wastewater system under HRSD. Under regionalization, one entity would make decisions on how to handle the sewage flows and repairs on a regional level. It is anticipated that the regional entity would be able to maintain a lower cost structure through economies of scale. Total cost across the region to address issues in the Consent Order are expected to exceed $1 billion dollars with the cost in Newport News alone surpassing $150 million dollars.

The Hampton Roads Planning District Commission (HRPDC) is managing a study of the feasibility of regionalizing the sewer systems. HRPDC is working with a Steering Committee of municipality and HRSD senior engineers and managers to guide the project. The study will be completed later this summer and will include a recommendation on whether regionalization is feasible. Following the review of the study, each municipality will vote on whether to proceed with regionalization. The final decision must be communicated to the EPA by February 2014 with municipal agreements executed by early 2015.

The regionalization study has delayed implementation of the Special Order by Consent; otherwise it was required that we have our Rehabilitation Plans already submitted and initial efforts in progress. Best estimates at this point suggest that the City would need to be an increase sewer rates by a minimum of 60% from the FY 2012 levels to be able to implement the regulatory-required plans. The regionalization study delay has allowed for a much smaller 15% increase to be proposed for the upcoming fiscal year while the study is completed. It is expected that all sewer rates in the region will continue to rise significantly during the next several years, whether regionalization occurs or not. It is anticipated that the study will provide the information necessary to determine how regionalization may help limit future cost and rate increases.

Fire/Emergency Medical Services (EMS)

Overview

In the new economic reality, local governments must identify and evaluate strategies to share services and reduce costs were possible. This is the edge of transformational change in the provision and sustainment of municipal services, now more important than ever, as the City is faced with continued diminishing revenues. Shared services provide an excellent opportunity to maintain a balance between fiscal challenges and responsiveness to the citizen's right to a core municipal service – public safety.

In July of 2012, City Council adopted a resolution authorizing the City Manager to enter into agreements with the City of Hampton to share fire and emergency medical services. The Newport News Fire Department was then tasked with ensuring that policies, processes, and operational practices related to three proposed initiatives were properly evaluated and providing guidance to the City Attorney for all required agreements. The initiatives include:

- consolidation of the two separate logistics (warehouse) facilities into one,
- conduct a joint recruitment testing process to create a candidate list for hiring purposes, and
- automatic mutual aid where the closest, most appropriate City would respond to a fire or medical call for service regardless of jurisdictional boundary.

Fire Department staff from each City has worked diligently to ensure that the implementation of each of these initiatives will be successful. Once the details were established, the staff from the respective City Attorney's office began to work on the required agreements. Those agreements are in final draft and are under review by both City Managers. The Fire Chief's agree that these initiatives create significant change to service delivery, and to make changes deliberately to ensure a smooth transition.

Consolidation of Logistics Facilities

The consolidation of the logistics divisions of both cities is projected to reduce operational costs as all ordering, receiving, and delivery of materials and supplies will occur in a single facility. The current Newport News Fire Department logistics facility provides both the appropriate space and location to serve both Departments efficiently. Hampton's current inventory will be moved to the Newport News facility; the Hampton staff will collocate and manage the operation jointly. By combining staff, the skills and ability of each Department will be used, allowing for review of staffing levels, and seeking other operational efficiencies. Warehouse space has prepared for quick accommodations, once the formal agreements are in place. A decrease in the cost of EMS consumables has already been secured by leveraging a government contract to gain increased negotiated discounts on purchases.

Conducting Joint Recruitment Testing

The Fire Departments were creative on beginning the laborious candidate recruitment and testing process. Based on cooperative language in the Newport News NNFD contract with the human resource consultant that manages the recruitment process, the Fire Chief's negotiated the inclusion of Hampton into the fall 2012 hiring process. Collaboration and cooperation between staff from both cities culminated with a single application, recruitment, and testing process for candidates desiring to become firefighter/medic recruits for either locality. Working together, staff managed over 725 applications during this single hiring process. Both cities have hired recruits from the eligibility list that was developed from the effort. This joint nature process resulted in a savings of both money and staff time, with the cost and work required were shared between the localities. The process also provided greater convenience for the applicants.

Automatic Mutual Aid

The most important initiative is the direct provision of emergency service to the community. Along our contiguous border, both cities have fire stations, apparatus, and personnel trained and equipped to address an all hazards environment. Currently, we enjoy the benefit of mutual aid agreements wherein one locality can call the other for assistance. The modification of this agreement to begin an automatic mutual aid response is an efficient and practical way to ensure the quickest and most appropriate response to calls for service. In short, regardless of jurisdictional boundary, the closest and most appropriate asset will respond to an emergency call.

The Fire Departments have reviewed all pertinent polices, trained together to assess skill levels and communications capabilities, and are now working cooperatively with the respective dispatch centers to get protocols in place to begin this important initiative. As the cities move closer to an implementation date, both cities will begin a public outreach campaign, informing the communities of the increased level of fire and EMS service coverage the citizens will have, without the added cost of increasing the amount of equipment or the number of personnel.

Impact

One of City Council's strategic initiatives is to promote greater efficiency in local government operations. The City is in active collaboration with other jurisdictions pursuing opportunities for shared services to support that goal. To date the Fire/EMS shared services and the joint construction and operation of an animal shelter are underway. It is anticipated that these partnerships will serve as a model for future service delivery alternatives. The regional sewer system consolidation is under study with the final report to be completed by the end of the summer. Depending on the analysis of the study, there may be merit in pursuing this regional effort.

In the future, the City will continue to explore opportunities to develop mutually beneficial partnerships with other localities that enhance our ability to provide services to our communities. Given budget constraints, the shared services approach may provide opportunities to bring greater efficiency to how we conduct our operations as well as the potential for both immediate and longer term cost savings.

FY 2014 BUDGET POSITION PAPER

APRIL 2013

CONTRACT PAVING FUNDING

Overview

The Street Maintenance Division of the Department of Public Works is responsible for the maintenance and preservation of:

- 544 centerline miles of driving service
- 1142 miles of curb and gutter
- 653 miles of sidewalk
- 539 lane miles of streets during snow/ice event

Funding for contract paving has been decreased over 54 percent since FY 2008, from $5,187,987 in FY 2009 to $2,816,576 in FY 2013. During this same time period, asphalt costs have dramatically increased (nearly 55% in the last two years), further reducing the amount of paving that can be accomplished each year.

Impact

Given the City's fiscal constraints over the last several years in the development of the operating budgets, difficult decisions were required regarding reductions. Every effort was made to recommend cutbacks in those areas that would have a lesser impact on the direct provision of services to citizens. While not ideal, the decision was made that reductions in funding for contract paving would be tolerable at least over the short run. However, after several years of decreased funding for contract street paving, the condition of our roadways must now begin to be addressed; it has reached the point of diminishing returns. The continued decline in paving funding has had a direct impact on the rate of deterioration of streets. It is the Public Works Department's goal to maintain all streets in an acceptable condition. In 2010, 86 percent of all City streets had a "Good" to "Satisfactory" rating on the Pavement Condition Index (PCI) used by the Public Works Department. In 2013, only 74 percent of the streets still met this rating. This was a 12 percent drop in the number of streets that were still considered to have an acceptable rating, in just a three-year period. As the overall paving and street conditions continue to worsen, the cost of maintenance and reconstruction will increase substantially.

Funding Strategy

Increasing Contract Paving by $1.5 million will provide funds to pave approximately 3 miles of residential streets and up to 1.5 miles of arterial streets. This additional investment is necessary to provide the resources required to maintain and preserve the City's roadways in the condition that our citizens deserve and have come to expect.

FY 2014 BUDGET POSITION PAPER

APRIL 2013

CULTURAL ATTRACTIONS FUND

Overview

The City of Newport is fortunate to have a variety of venues, both public and private, where citizens have the opportunity to participate in the arts and other cultural activities. Unfortunately, the decline in the economy and the prolonged recession has negatively impacted the financial viability of these cultural entities. Federal and State grants that were depended upon to support operations and capital investments have been curtailed drastically in recent years or eliminated. The City has attempted to minimize these reductions with local funding to support these operations, in a time of its own limited resources and competing needs. Overall, these organizations have had to absorb funding cuts over a sustained period of time that may now impact their continued existence.

There are different schools of thought on the importance of a strong cultural presence and how it adds to the quality of life in a community, or the ability to attract and retain businesses, or as a draw for new residents. However, most would agree that if the City would allow these well-established cultural attractions to fail at this time, a largely negative message would be sent to both to the citizens and to other observers that the City was not investing in mutually beneficial entities throughout Newport News.

Impact

The establishment of a Cultural Attractions Fund will provide City cultural museums/centers a financial safety net. These funds will be one-time operational/project support and allow for continued efforts to identify additional financial resources to ensure ongoing viability of the venues, and as an incentive to encourage private fund raising and grant matching.

Funding Strategy

In the development of the FY 2014 Recommended Operating Budget, if the City is to maintain its diverse cultural amenities, it was deemed important that steps be taken to identify a funding source to augment existing resources. To provide a new funding source that does not impact our citizens directly, the Lodging Tax rate is recommended to increase from 7.5% to 8.0%. This half of one percent (0.5%) rate increase is anticipated to generate approximately $215,000 in additional revenue. The proposed budget also proposes a change in the Lodging Tax to establish an additional one dollar a room fee per night to be collected. Proceeds from this new tax and the proceeds from the incremental rate change would then be dedicated in support of the establishment of a Cultural Attractions Fund. The FY 2014 Recommended Budget includes $650,000 to be used as a reserve for both public and private museums and cultural centers, to solicit the City for additional capital and operational support during the fiscal year. Of this amount, $400,000 will be dedicated to support of the Virginia Living Museum (VLM).

The details for application and allocation of the funds are still being developed at this time. It is anticipated that a competitive process will be established to allow entities (public and private) to submit requests seeking cultural attraction support funds. After appropriate review by staff and the City Manager, a recommendation will be made to City Council. Upon City Council approval, awarded funds will be made available.

FY 2014 BUDGET POSITION PAPER

APRIL 2013

POSITIONS: ELIMINATED, TRANSFERRED, AND NEW

Overview

FY 2014 is the fifth consecutive year of reduced revenue from two of the City's largest revenue sources, Real Estate taxes and State revenue to localities. The City's Real Estate Assessed Valuations fell by nearly $1.8 billion from FY 2010 to FY 2014, including an additional loss of $300 million in real estate values projected for FY 2014. The projected FY 2014 drop in valuations will result in a loss of more than $3 million in revenue to the City. This reduction, coupled with necessary increases in funding to retirement and health care resulted in the need for significant budget reductions. Consequently, one of the City Manager's FY 2014 budget process directives to departments was to review their current staffing levels and structure with the intent of reducing personnel costs. Wherever practicable, greater use of part-time, temporary and contractual employees, job sharing and overtime was encouraged to save funds. Since the City has been under a partial hiring freeze for all of FY 2013, all vacant positions were scrutinized for elimination during the budget process and attrition credits were again utilized to achieve savings (an attrition credit reduces a department's budget for salaries and fringe benefits based on an anticipated lag time between an employee termination and when a new employee is hired). Minimizing layoffs and avoid furloughs were other objectives.

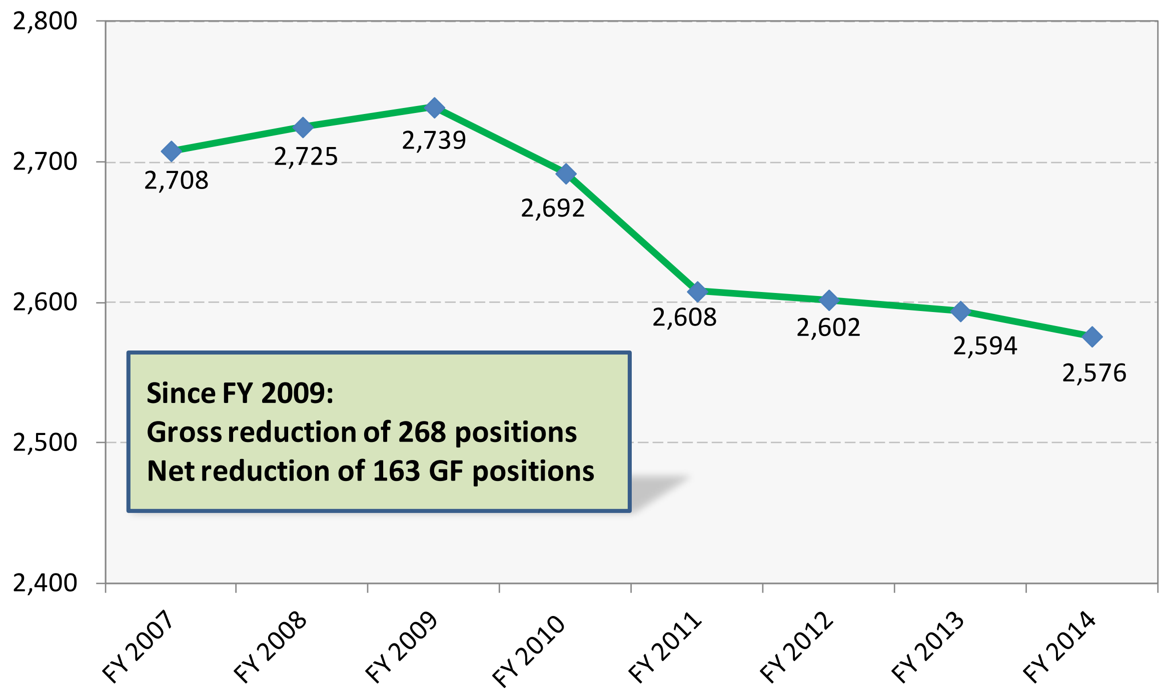
Issues

Position Reductions

To offset the overall reduced General Fund revenue and coupled with necessary increases (to retirement, healthcare, as well as funding an additional $1.9 million to Newport News Public Schools), the City Manager found it necessary cut the City's General Fund expenditures, and then recommend a real estate tax rate increase to close the gap on projected revenue and anticipated core expenses. Personnel costs make up nearly 44% of City's General Fund overall budget. To achieve the required significant cost savings, reductions in personnel were unavoidable. In total, 24 positions are recommended for elimination from the General Fund, three (3) positions being transferred to other user fee-supported funds, and an additional six (6) new positions. Unfortunately, eight (8) of the 24 positions slated for elimination are filled with current City employees; the 13 remaining positions are vacant. In the user fee-supported funds, two (2) filled positions and eleven (11) vacant positions are also recommended for elimination.

There are a total of 17 new positions being recommended in the user fee-supported funds, due to contractual agreements (i.e., the establishment of the Peninsula Regional Animal Shelter), or due to federal or state environmental mandates (i.e., the Regional Sewer Consent Order). The net change of the total number of positions in the Other Operating funds is seven (7). Table One below details, by department and position, specific changes made to the General Fund staffing for FY 2014. Regrettably, personnel reductions are not new to the City. Over the past five fiscal years (inclusive of the FY 2014 Recommended Budget) the City has reduced full-time staff by 268 positions with a net reduction of 163 after appropriately adding positions for strategic initiatives such as the new Brentwood Fire Station, the Denbigh Community Center, the 311 Customer Contact Center and the new Peninsula Regional Animal Shelter. These total reductions represent a loss of approximately 6% of the full-time workforce over the same time period.

General Fund Positions



In accordance with City policy, the City Manager will announce a Reduction-In-Force (RIF) immediately after the FY 2014 budget is adopted by City Council. The process of implementing the RIF with respect to occupied positions will require coordinated activities between department heads and the Department of Human Resources. The Department of Human Resources staff will work with affected employees to determine if they can be placed in a vacant position in the City for which they are qualified. In situations where such a placement is unsuccessful, the Human Resources Department will offer additional placement services such as resume' writing assistance and employment counseling.

New Positions in the General Fund
Given the financial challenges for FY 2014, the adding of new positions was limited and very specific in nature. Positions added were designed to meet the needs of City Council's Strategic Priorities or were public safety related. Positions were added at minimal expense.

In the Juvenile Services Department, two (2) Juvenile Services Counselor II positions are being established from the savings of the eliminated Assistant Director allotment. The positions will bring better counselor-to-juvenile supervision ratios to juvenile detention population.

As Customer Service is an important aspect of the City and one of City Council's Strategic initiatives, the City Manager is recommending the establishment of three (3) new positions for full operation of the City's new 311 Customer Service Contact Center. The goal of the 311 Customer Contact Center is to provide citizens with one number they can call to access city services and information. The Center will provide seamless and customer friendly service with all the callers' history and information in one location. This will allow the City to track trends or issues, to coordinate interdepartmental responses, and to measure the City's performance as it relates to service delivery. In addition, the 311 Customer Contact Center will be the public's point of contact during emergencies.

Planning for a 311 Customer Contact Center began several years ago, with initial funding in FY 2012 with one position. The FY 2013 Budget for this operation includes six full-time positions and part-time staff. Full functioning of the 311 Customer Contact Center is anticipated to begin in late FY 2013. Funding in FY 2014 is proposed at $455,356 that includes ten (10) full-time positions (One Communications Manager, One Communications Supervisor, one new Configuration Analyst position, and seven Customer Service Assistants, two of these positions being new allotments and partially funded in FY 2014), as well as part-time staff. The three (3) new positions are offset by reductions and transfers of the Dispatcher positions in the Public Works Department, as indicated in Table One below.

Another City Council Strategic initiative addressed with a new position is that of Youth and Gang Violence Reduction, a civilian Violence Prevention Coordinator. In the Police Department a new program coordinator position will be established to oversee the City's consolidated effort for this Strategic Priority. Please see the detail of the Youth and Gang Violence program in the FY 2014 Position Paper entitled *"Youth and Gang Violence Reduction"*.

Positions in Other Funds
As stated earlier, 13 positions are being recommended for elimination in Other Funds. Table Two below details, by department and position, specific changes made to all other funds (other than General Fund) for FY 2014. There are a total of 17 new positions being recommended to be added in Other Funds and three additional positions that will be transferred in from the General Fund.

The majority of the new positions are in the creation of the Peninsula Regional Animal Shelter. Beginning on July 1, 2013, the City and surrounding localities will no longer use the SPCA facility for animal sheltering services. Currently, a new 29,000+ square-foot animal shelter is being built in the City. Based on the construction completion date, operating costs to open and run the animal shelter for 11 months, including salaries, land rent, capital reserve, and certain other costs will be apportioned to the participating localities. Eleven (11) new positions will be added to this function, with the salaries prorated to coincide with anticipated opening of the new facility in calendar year 2013.

The second group of new positions are to complete the staffing for the new 311 Customer Contact Center. Three (3) positions will be added, one Configuration Analyst and two Call Takers, to allow assuming the workload of service calls for the initial departments of Public Works, Engineering, Codes Compliance, the City's current information line and website contacts, and then moving further to other operating departments. The two Call Taker positions salaries' are prorated for six months.

In both the Stormwater Management and the Wastewater (sanitary sewer) Funds, the third group of new positions is associated with the mandates associated with the Regional Consent Order and necessary to address the Virginia Stormwater Management Program regulations. For the Stormwater Fund, there will be a total of four (4) new positions: one Environmental Specialist, one Site & Subdivision Technician, one Senior Equipment Operator (for compliance with MS-4 permit and water quality requirements, with impact of 200,000 linear feet of pipe cleaned/flushed or 4,000 additional structures annually cleaned), and one Senior Inflow & Infiltration Technician (for compliance with MS-4 permit and water quality requirements, with impact of 300,000 linear feet of stormwater infrastructure inspected annually). For the Wastewater Fund, one Instrumentation and Control Specialist position will be added to meet demands of TELOG project related to Special Order of Consent. In the Solid Waste Fund, one new Staff Technician position will be added.

The three positions being transferred from the General Fund are Dispatcher positions, moving from the Public Works Department, with two reassigned to the Stormwater

Fund and the other to the Wastewater Fund, to address after hours emergency calls and service requests, as well as other duties within the department.

Impact

Even with the addition of a number of positions in support of strategic initiatives or state regulations, the total allotments (positions) in the General Fund are recommended to be reduced from 2,594 in FY 2013 to 2,576 in Recommended FY 2014. As a point of comparison, the General Fund had 2,574 positions in FY 2004 Revised budget, which is two (2) fewer allotments than those included ten years later, as part of the FY 2014 Recommended Budget. The School Division also continues to right-size its operation with their FY 2014 School Board Proposed Budget, which includes a net elimination of 98 positions. This School reduction is separate from all other eliminations noted above.
In addition, Attrition Credits will increase in most departments saving additional funds. Table Three below details Attrition Credits from the Adopted FY 2009 to FY 2014 Recommended Budget.

TABLE 1

FY 2014 Recommended General Fund Position Changes

	Eliminated Filled	Eliminated Vacant	Transferred	Added
City Clerk				
Executive Assistant		-1		
City Manager				
Executive Assistant		-1		
Admin Assistant II			1	
Human Resources				
Admin Assistant II			-1	
Purchasing				
Senior Printer		-1		
Printer II	-1			
Warehouse		-1		
Information Technology				
Sr Web Developer		-1		
Circuit Court				
Admin Coordinator	-1			
Police				
Youth & Gang Violence Coord				1
Warehouse	-1			
Sheriff				
Deputy		-2		
Juvenile Services				
Detention Specialist				2
Asst Director		-1		
Public Works				
Dispatchers	-2		-3	
Human Services				
Financial Analyst - SS		-1		
Social Worker II		-1		
Employment Services Wrkr		-1		
Business Project Mgr B		-1		
Libraries				
Supervising Librarian	-1			
Sr ISS	-1			
Computer Lab Specialists	-1			
Planning				
Research Planner		-1		
311 Customer Service Center				
Configuration Analyst				1
Call Takers				2
TOTAL	**-8**	**-13**	**-3**	**6**
TOTAL CHANGE	**-18**			

TABLE 2

FY 2014 Recommended Other Fund Position Changes

	Eliminated Filled	Eliminated Vacant	Transferred	Added
Historical Services Fund				
Marketing Coord	-1			
Stormwater Fund				
Environmental Specialist				1
Site & Subdivision Tech				1
Sr Equipment Operator				1
Sr Inflow & Inflitration Tech				1
Solid Waste Fund				
Dispatcher/AA II			2	
Staff Technician				1
Wastewater Fund				
Dispatcher/AA II			1	
Instrumentation & Control Spec				1
Pen Regional Animal Shelter				
Animal Shelter Director				1
Kennel Supervisor				1
Adoption Coordinator				1
Animal Control Tech Sr				2
Animal Control Tech Sr				3
Administrative Assistant II				3
Public Utilities				
Sr Programmer Analyst		-1		
Process Control Specialist	-1			
Watershed Inspector		-1		
Water Treatment Plant Supervisor		-1		
Sr Const/Maintenance Wrkr		-1		
Laboratory Analyst III		-1		
Utility Crew Supervisor		-1		
Sr Pipelayer		-1		
Sr Equipment Operator		-1		
Sr Const/Maintenance Wrkr		-1		
Residuals Operator		-1		
Meter Repairer II		-1		
TOTAL	**-2**	**-11**	**3**	**17**
TOTAL CHANGE	**7**			

TABLE 3

General Fund Attrition Credits

DEPARTMENT[1]	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Police	$660,000	$688,642	$0[2]	$750,000	$1,000,000	$1,350,000	$1,350,000
Juvenile Services	$340,000	$340,000	$336,856	$271,956	$271,956	$291,956	$291,956
Public Works		$200,000	$0[3]		$350,000	$350,000	$400,000
Fire		$375,282	$560,062	$630,000	$830,000	$500,000	$500,000
Parks, Recreation and Tourism		$367,092	$382,029	$515,000	$654,594	$600,000	$600,000
Human Services		$611,820	$661,014	$1,547,418	$1,800,000	$2,400,000	$2,400,000
Commonwealth's Attorney			$79,056	$63,825	$70,000	$73,000	$63,000
Sheriff				$89,600	$179,200	$344,200	$354,200
Libraries				$50,000	$50,000	$50,000	$50,000
Engineering					$50,000	$50,000	$60,000
Adult Corrections							$75,000
Commissioner of the Revenue							$25,000
Treasurer							$10,000
Nondepartmental					$200,000	$200,000	$200,000
Total GF Attrition Credit	**$1,000,000**	**$2,582,836**	**$2,019,017**	**$3,917,799**	**$5,455,750**	**$6,209,156**	**$6,379,156**
Other Operating Funds				$2,247,600	$3,077,600	$2,982,600	$2,408,207
Citywide Attrition Credit	**$1,000,000**	**$2,582,836**	**$2,019,017**	**$6,165,399**	**$8,533,350**	**$9,191,756**	**$8,787,363**

Notes:

[1]The attrition amount includes a value for an estimated number of vacancies, which may vary annually. The amount also includes the cost of fringe benefits. The retirement rate changes for each fiscal year and in part, accounts for the amount difference between fiscal years.

[2]Police Department Attrition Credit eliminated in FY 2010. Twelve (12) Police Officer positions were frozen/suspended to allow for application of Federal Stimulus Package funding.

[3]Public Works Attrition Credit eliminated in FY 2010 due to adding ten (10) frozen/suspended positions.

FY 2014 BUDGET POSITION PAPER

APRIL 2013

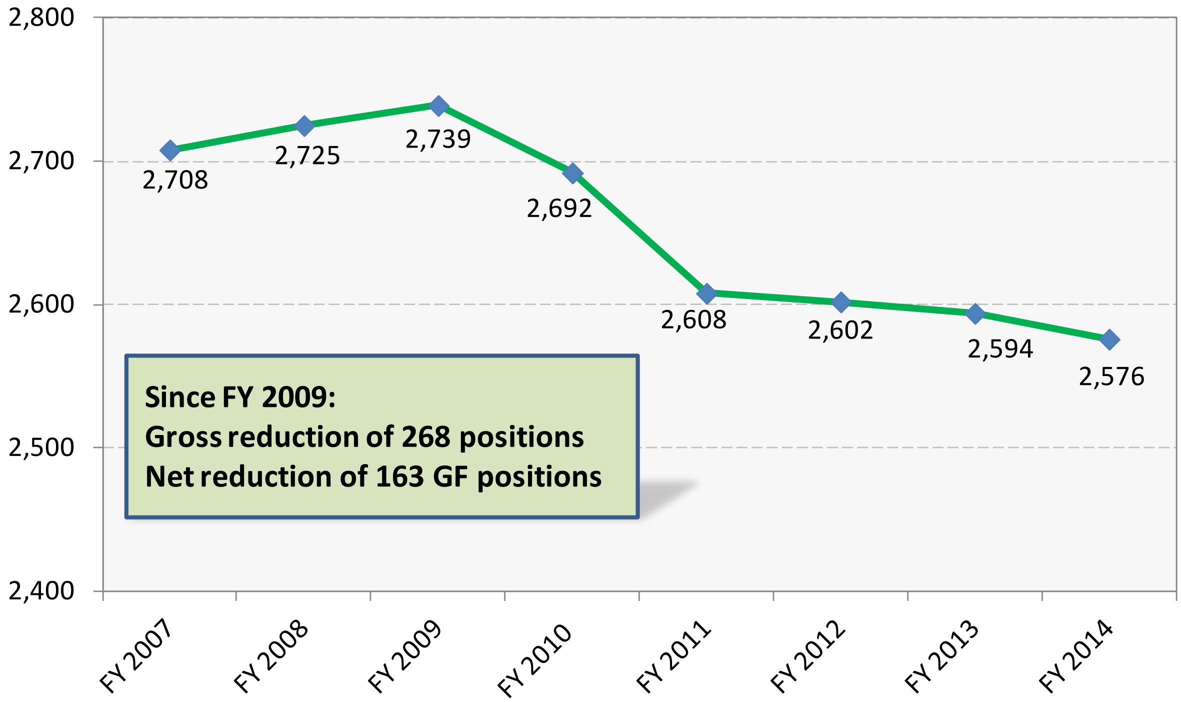
EMPLOYEE COMPENSATION AND POSITION CLASSIFICATION

Annual Salary Adjustment

For FY 2014, the cost to provide salary and fringe benefits to employees is projected to be approximately $190.4 million or 44% of the Recommended General Fund Budget. During difficult economic times, localities must look to the areas of employee compensation and benefits to reduce or eliminate costs. This is evident by actions taken in Newport News, as well as in some of the neighboring localities, and in many areas throughout the nation. During FY 2013, the City controlled this potential expense by providing only a half-year salary increase. Employees were granted a 1.5% general wage adjustment or $1,000, whichever was greater, effective January 1, 2013, rather than the traditional effective date of July 1. This strategy avoided expense of nearly $1 million during FY 2013. In addition, from FY 2009 to FY 2013, through attrition and a hiring freeze, the City was able to avoid massive lay-offs, furloughs, salary reductions, and costly early retirement buy-out programs.

From FY 2009 to FY 2013, 250 positions were eliminated from the General Fund operating budget. For FY 2014, an additional 24 are recommended for elimination (net 18 positions). This represents savings of nearly $1.3 million for FY 2014 and a net reduction in positions of 268 allotments or 6% since FY 2009. At the same time there have been reductions in Part Time and Temporary staffing funds. These funding sources are a viable substitute for full time positions; with the elimination of funding in these types of staffing results in the equivalent loss of positions as well. While some new positions were added, they were limited in scope or were necessary for the full operation of a new facility (e.g., 12 positions were added for the opening of the Brentwood Fire Station in FY 2012). Ultimately, these personnel cuts required the remaining employees to perform additional duties with no increased compensation.

General Fund Positions



Organizational restructuring has been encouraged throughout the City to accommodate the shifting of the workload. The City's employees have worked diligently in support of the organization's mission and goals despite the professional and personal challenges all have experienced in dealing with a troubling economy. The City's workforce has remained highly competent and motivated to provide efficient and effective services to citizens on a daily basis.

In recognition of our employees' efforts to carry on the mission despite the challenges of reduced resources and greater personal workload and stresses, it is recommended that effective July 1, 2013, eligible regular full-time employees, including Constitutional Officers and Appointed Officials, receive a general wage adjustment of 2%. This General Fund expenditure budget increase for salaries in FY 2014 is $2.6 million inclusive of associated benefits. All other operating funds (user fee and special operating funds) also incorporated a 2% July 1, 2013 salary increase in their respective budgets for the upcoming fiscal year.

Reclassifying Positions

In order to accommodate the reductions in the workforce, organizational restructuring continues to occur throughout City departments to manage the workload and maintain service levels. The position classification of an individual is a means of evaluating a filled or vacant allotment to ensure the assigned duties and responsibilities are properly graded and grouped with similar level positions across the City.

For the FY 2014 budget, a proactive approach was taken and potential position reclassification changes were solicited from departments during the budget preparation process. Potential pay grade changes to positions as a result of increased responsibilities were identified early in the process, enabling the Human Resources Department to review requests, and the Budget and Evaluation Department to calculate the cost of the potential changes. On an ongoing basis, operating departments will review positions to determine if efficiency and productivity can be gained through position reclassifications. As a result, $153,681 has been budgeted in the General Fund Non-departmental cost center to allow for the change in the value of positions as reclassifications are completed, and that may occur during the fiscal year. This pool is to be used in the event that the increased salary and fringe benefit costs could not be absorbed by the position's operating department.

Pension Contributions

The City employs workers that participate in either the Virginia Retirement System (VRS) or the Newport News Employees Retirement Fund (NNERF), depending on date of employment. Beginning in FY 2013, the State General Assembly required a 5% employee contribution of all local government employees participating in the VRS plan. Localities were also required to provide, at least, a 5% salary increase to offset this new employee cost. The City elected to provide a 5.75% salary offset, which would cover the required 5% contribution and also equalize for the increased related taxes that employees would incur with this mandate. For numerous reasons, including equity between employees working side-by-side and logistics related to the City's payroll system and the affect an employee contribution would have on the City's Annual Required Contribution (ARC) to the pension fund, it was determined that, effective January 1, 2013, employees participating in the City's NNERF plan also contribute 5% to their pension and receive the corresponding 5.75% salary offset. For this reason, salary compensation appears to have increased dramatically during FY 2013. In reality, employees did not realize this increase in their paycheck as "take-home pay", as 5% of the 5.75% increase was returned to the City in the form of a pension contribution and the remaining 0.75% was estimated to cover the taxes associated with the increased salary. The 5% employee contribution reduced the City's contribution to the Pension Fund by an equivalent in FY 2013.

FY 2014 Pension Contributions

The City is firmly committed to an eight-year obligation to incrementally increase its contribution to the Newport News Employees Retirement Fund (NNERF) Annual Required Contribution (ARC) to the Pension Fund. FY 2014 will be the fifth year in this process. This is a fundamental expense of the operating budget and the recommended budget includes the planned increase in our annual and sustainable contribution to the NNERF pension system. The annual sustainable contribution to the pension system is $23.1 million City-wide, with $5.7 million in additional funding from the 5% salary contribution of all NNERF employees. This recommended amount is consistent with the plan to completely restore the actuarial position of NNERF pension fund over time, and is achievable due to the City Council adopted changes to the Pension system in October 2012, as mentioned above. While these changes lowered the overall ARC dollar requirement from $56 million to $41 million over the planned eight- year period, the decision was made to maintain the scheduled percentage rate increase at the same level originally planned, rather than have the FY 2014 annual contribution equal to the FY 2013 level of $28.9 million in addition to employee contributions. The recommended amount brings the contribution up to 73% of the ARC from 65% in the current year.